Integrity Independence
ct Honesty Balanced Perspectives
Openness Teamwork

Manitoba

OFFICE OF THE

AUDITOR GENERAL

Audit of the Public Accounts for the year ended March 31, 2006

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Auditor General will contribute to greater public trust and confidence in the institutions of government.

Vision

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Auditor General will contribute to greater public trust and confidence in the institutions of government.

Mission

To contribute to effective governance by the Manitoba Legislature, we provide the Members of the Legislative Assembly with independent assurance and advice on:

government accountability information;
compliance with legislative authorities; and
the operational performance of government.

Values

IN INTERPERSONAL RELATIONSHIPS

Respect ***Honesty***
Integrity ***Openness***

IN ACHIEVING OUR VISION AND MISSION

Teamwork
Independence
Balanced Perspectives
Professional Excellence

2007-00956

Office of the Auditor General
500 - 330 Portage Avenue
Winnipeg, Manitoba R3C 0C4

December 2006

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith my report on the *Audit of the Public Accounts for the year ended March 31, 2006* to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of The Auditor General Act.

This report represents my first public report since being appointed as Auditor General in July of this year. These last five months have been a period of reflection about the many changes in the public sector since I last held the office of Provincial Auditor in 1996. The adoption of the Summary Financial Statements represents one of the most significant positive changes.

The shift to the Summary Financial Statements has progressed well beyond a mechanical adoption of accounting standards. It has included an acceptance throughout the public sector of its importance. The underlying systems, reports and inter-relationships have been identified and have been or are being properly coordinated to complete this shift. This report describes the substantial progress made in this area during the 2005/06 fiscal year.

The Public Accounts Committee has also improved in the last ten years with stronger rules and more frequent meetings. We include a short section in this report highlighting the status of our previously reported recommendations. It is my intention to promote constructive improvements to the Public Accounts Comittee operations this next year, as a priority activity for our office.

Respectfully submitted,

Carol Bellringer

Carol Bellringer, FCA, MBA
Auditor General

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EXECUTIVE SUMMARY

Introductory Comments from the Deputy Auditor General

This report highlights the work performed by our office to ensure that we fulfill our responsibilities under Part 3 of *The Auditor General Act* for the Audit of the Public Accounts of Manitoba. With the Government accepting our long-standing recommendation of fully adopting generally accepted accounting principles for 2007/08 and publicly reporting on only one set of financial statements - the consolidated (Summary) financial statements of the Province of Manitoba, this will facilitate the public's understanding of government finances by presenting only "one bottom line".

In addition to highlighting our direct work on the Public Accounts of Manitoba, this report contains a summary of an assessment we performed of Internal Audit and Consulting Services. This work was undertaken to encourage the strengthening of the Internal Audit function in the public sector through the establishment of an Internal Audit Committee to assist in this regard.

In addition, we continue to promote the strengthening of the Public Accounts Committee of Manitoba, as well as improvements to public performance reporting. This is noted within topical sections of this report.

The following Executive Summary provides a synopsis of some key items noted in this year's report.

Executive Summary

Expanded Consolidation of Entities into the Summary Financial Statements.

In this year's report we highlight the Government's adoption of an expanded Government Reporting Entity (GRE) defined based on control as required by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. This change resulted in eight additional crown organizations being consolidated into the GRE. Public school divisions will be consolidated into the 2007/08 Summary Financial Statements. At this time public school divisions do not prepare financial statements in accordance with generally accepted accounting principles (GAAP) and as a result, their financial statements could not be consolidated into the 2005/06 Summary Financial Statements.

Qualified Audit Opinion for Non-Consolidation of School Divisions.

As a result, the non-consolidation of public school divisions' financial statements resulted in a reservation in the Auditor's Report on the 2005/06 Summary Financial Statements. The reservation stated that the effects of the non-consolidation of public school divisions on the reported assets, liabilities, revenues, expenses and notes to the financial statements could not be determined. The qualified audit opinion stated that, *"except for the effects of non-consolidation of public school divisions on the financial position as at March 31, 2006 of the Province of Manitoba and the operating results of the for the year then ended, the Summary Financial Statements were presented in accordance with Canadian GAAP".*

Commitment to Prepare Consolidated Financial Statements in Accordance With GAAP.

The Government has committed to prepare Consolidated Financial Statements in accordance with GAAP as well as prepare a full consolidated budget based on the new

GRE, including public school divisions, for the 2007/08 fiscal year. In this report, we reviewed the actions taken towards this commitment.

New Environmental Liabilities Accounting Policy.

For 2005/06, the Government adopted a new accounting policy for the recognition of environmental liabilities for which the Province is obligated or likely to be obligated to remediate. The accounting policy provides for the phased-in recognition (to March 31, 2009) of all liabilities, as determined by site by site assessments, resulting from contamination which occurred on or before March 31, 2005. These liabilities will be recorded as a charge to the accumulated deficit. The initial liability recognized was $142 million. The liability associated with contamination occurring after March 31, 2005 will be recorded as an expense in the current year.

Special Purpose Operating Fund and Special Funds Financial Statements Not in Accordance with GAAP.

We continue to believe that the Special Purpose Operating Fund and Special Funds Financial Statements should not be used to assess the Government's performance in managing the Province's financial affairs and public resources because there are significant accounting policies used in the Special Purpose Operating Fund and Special Funds Financial Statements that are not in accordance with GAAP.

If Canadian GAAP had been used in the preparation of the Special Purpose Financial Statements, financial assets would increase by $199 million (2005 - $246 million), non-financial assets would increase by $1,826 million (2005 - $1,707 million), liabilities would increase by $2,390 million (2005 - $2,649 million), net debt would increase by $2,191 million (2005 - $2,403 million), accumulated deficit would increase by $365 million (2005 - $696 million), revenue including net income from government business enterprises would increase by $2,209 million (2005 - $1,871 million), and expenses would increase by $2,062 million (2005 - $1,854 million). As well, the effects of the non-consolidation of public school divisions on the reported assets, liabilities, revenues and expenses, and the information provided by way of notes to the financial statements cannot be determined. As a result, this year, we again excluded the word "fairly" from the opinion paragraph in order to continue to highlight the limitations inherent in the Special Purpose Operating Fund and Special Funds Financial Statements.

Understanding the Summary Financial Statements.

This year, in the section titled, *Continuing Focus toward the Summary Financial Statements*, we again present two sections: *Understanding the Summary Financial Statements*, and *Financial Condition*. These sections are intended to assist readers in understanding the Summary Financial Statements. A key focus of Summary Financial Statements involves the concept of net debt and the change in net debt, both in actual and relative terms (to the provincial economy). The consistency of the Province's accounting policies and the completeness of note disclosure are fundamental to understanding the Summary Financial Statements. As well, the planned results (budgeted estimates of revenue and expense) are also important in assessing the Province's annual results in relation to the budget.

Additional Information in the Annual Report Needed

In our review of the 2005/06 Annual Report, we noted that there is only limited discussion or analysis of risk and how the Province addressed risk. As well, more emphasis on the Summary Financial Statements, reflecting the financial position and operating results of the GRE, is still needed. In our view, the Annual Report needs to be enhanced to reflect PSAB's *Statements of Recommended Practice on Financial Statement Analysis and Public Performance Reporting*.

In the last two sections of our report we include a report on **External Assessment of Internal Audit and Consulting Services** and a report on **Future Handbook Sections Affecting the Public Accounts**.

IACS Moving Toward Modernizing Practice.

In our assessment, we compared the operations of the Province's Internal Audit and Consulting Services (IACS) with standards set by the Institute of Internal Auditors (IIA) and Canadian Institute of Chartered Accountants (CICA) to assist them in modernizing their practices as they refocus their strategic direction and operations. We found that IACS needs to take a number of critical steps to meet IIA standards and modernize their practices. Our recommendations centered on a number of areas including the implementation of a government-wide internal audit committee, the setting of standards to maintain independence and objectivity, the establishment of a charter to set out IACS roles and responsibilities, the clarification of the professional standards used in planning and executing their work, resourcing issues, the communication of audit findings and recommendations, the follow-up on audit report issued, performance measurement and assessments and the ability to add value.

The last section of our report provides information about recommendations and guidance on accounting for public sector entities established by the Public Sector Accounting Board (PSAB) of the CICA. The new and future PSAB Handbook sections affecting financial reporting in public accounts include:

- segment disclosure;
- tangible capital assets; and
- performance reporting - statement of recommended practice.

New PSAB projects on government transfers and financial instruments may also impact the public accounts.

Bonnie J. Lysyk, MBA, CA•CIA
Deputy Auditor General and Chief Operating Officer
December 2006

HIGHLIGHTS OF THE 2005/06 PUBLIC ACCOUNTS

Highlights of the 2005/06 Public Accounts

SUMMARY FINANCIAL STATEMENTS

- Five Year Comparative Results are presented in **Figure 1**.

FIGURE 1

Summary Financial Statements
Year Ended March 31

	($ millions)				
	2006	**2005**	**2004***	**2003***	**2002***
Actual summary annual (deficit) surplus	**375**	562	(579)	(184)	(10)
Budgeted summary annual (deficit) surplus	**198**	(59)	(110)	(133)	36
Net borrowings	**(9,465)**	(9,362)	(9,110)	(8,217)	(8,117)
Public borrowing interest expense	**1,307**	1,279	1,296	1,449	1,818
Change in net debt (increase)	**151**	459	(763)	(437)	(350)

Source: *Province of Manitoba Annual Reports for the years ended March 31, 2002 - 2006.*

* The results presented have not been restated to conform to changes in accounting policies which are reflected in the 2006 results. As such, the reported change in net debt would likely change. All of the restated figures were not available.

- For the year ended March 31, 2006, the Government Reporting Entity (GRE) of the Province of Manitoba was redefined based on control; the expanded Reporting Entity included all of the previous consolidated entities and eight other entities as well as one new crown organization. Public School Divisions will be consolidated for the year ending March 31, 2008.
- The Summary Financial Statements for the year ended March 31, 2006 reflected the new GRE and were prepared in accordance with Canadian generally accepted accounting principles (GAAP) except for the non-consolidation of the public school divisions' financial statements.
- The Province began recording its environmental liabilities in the 2006 Summary Financial Statements.

SPECIAL PURPOSE OPERATING FUND AND SPECIAL FUNDS FINANCIAL STATEMENTS

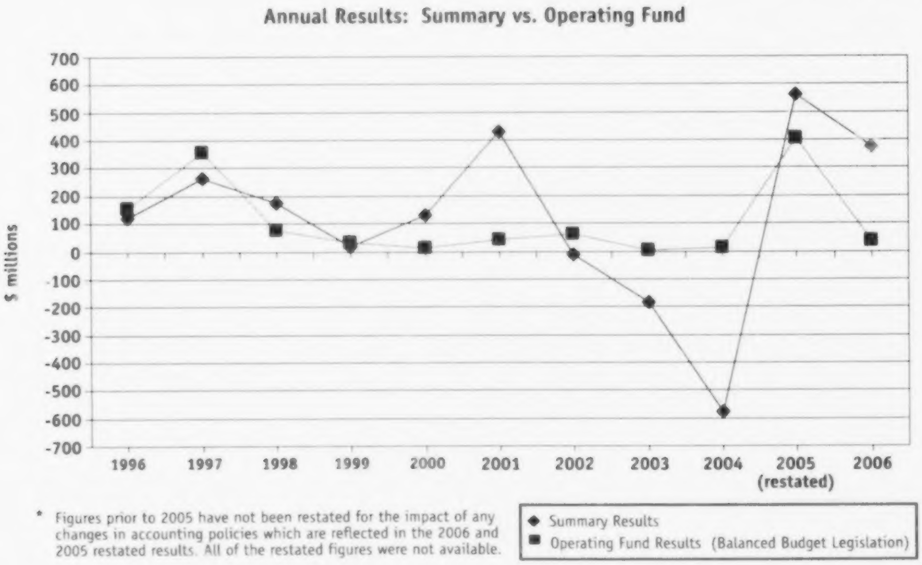
- One significant shortcoming of a focus on these statements is that even though the financial statements reflect a positive balance for the purposes of Balanced Budget Legislation, deficits (after reflecting the impact of GAAP adjustments, such as for pension expense) can and have occurred, net debt to GDP can, and has gone up, and borrowings can, and have gone up.
- These financial statements are prepared using the Province's accounting policies (which vary from GAAP) for the year ended March 31, 2006 as follows:

  - pension liability of $4.0 billion and pension expense of $206 million was not recorded;
  - elimination of deferred charges (asset) of $637 million and the related expense of $51 million were not recorded;
  - financial assets of $199 million, non-financial assets of $2,463 million , a reduction in liabilities of $1,577 million and in net debt of $1,776 million, as well as, a reduction in the accumulated deficit of $4,239 million, revenue of $2,209 million and expenses of $1,805 million for all of the crown organizations and government business enterprises were not recorded; and
  - there was no restatement of the correction of errors and the changes in accounting policies.

- Without the above variations from GAAP, the Special Purpose Operating Fund and Special Funds Financial Statements would have reflected increased financial assets by $199 million, increased non-financial assets by $1,826 million, increased liabilities by $2,390 million, increased net debt by $2,191 million, increased accumulated deficit by $365 million, increased revenues including net income from government business enterprises by $2,209 million, and expenses would have increased by $2,062 million. As well, the effects of the non-consolidation of public school divisions on the reported assets, liabilities, revenues and expenses, and the information provided by way of notes to the financial statements cannot be determined.

ANNUAL RESULTS: SUMMARY VS. OPERATING FUND

FIGURE 2



* Figures prior to 2005 have not been restated for the impact of any changes in accounting policies which are reflected in the 2006 and 2005 restated results. All of the restated figures were not available.

Figure 2 illustrates the differences between annual results computed for the Summary Financial Statements versus the Operating Fund.

CONTINUING FOCUS TOWARD THE SUMMARY FINANCIAL STATEMENTS

Continuing Focus Toward the Summary Financial Statements

Over the past few years we have reflected on the financial reporting practices of the Province in the context of the worldwide call for improved accountability and transparency. This year the Government continues to commit to focus public discussion solely on the Summary Financial Statements and to eliminate the need for published, audited Operating Fund Financial Statements by 2007/08. This change also involves preparing a full summary budget for the 2007/08 fiscal year as well as preparing quarterly summary financial statements at a later point thereafter.

We have been reporting to Manitobans for many years that the Summary Financial Statements are the financial statements that should be used to assess the Government's performance and the Province's financial position including its net debt position. The Special Purpose Financial Statements are not GAAP financial statements and do not include net debt of $2.2 billion ($4.0 billion pension liability offset by other net assets of $1.8 billion) or the additional net annual surplus of $147 million from the operations of crown organizations and government business enterprises (excluding the nets profits from Manitoba Lotteries Corporation and Manitoba Liquor Control Commission which are already reflected in the Special Purpose Financial Statements). The following sections are intended to assist readers in understanding the Summary Financial Statements and how they can be used in assessing the Government's financial condition.

UNDERSTANDING THE SUMMARY FINANCIAL STATEMENTS

We believe the keys* to understanding the Summary Financial Statements are:

- Governments are different than businesses and their financial reporting reflects that difference. A government's goal is to provide services through its programs and redistribute the Province's resources, not make a profit;
- All the crown organizations and government business enterprises comprising a government's reporting entity are included (see **Appendix E**);
- The focus is on net debt which is total liabilities less financial assets (financial assets are assets which can be used to pay off liabilities) (see **Appendix B**, page 147); Net debt represents the future revenue requirements needed to pay for existing liabilities (past transactions and events);
- Non-financial assets such as tangible capital assets (i.e., infrastructure, land, buildings, etc.) are used to provide services and cannot be used to pay off liabilities unless they are sold; they are included in the accumulated deficit figures as a reduction of net debt (see **Appendix B**, page 147);
- Accumulated deficit reflects the government's entire net economic shortfall. It means that the government's liabilities are greater than their assets and that the government has been financing their annual

*Incorporates guidance from CICA Publication, *"20 Questions About Government Financial Reporting, Federal, Provincial and Territorial Governments"*.

operating deficits by borrowing. It also reflects the sum of all the annual surpluses and deficits ever reported by a government;

- Borrowings on the Statement of Financial Position (see **Appendix B**, page 147) refer to the total debt issued by the government (past and present);
- Net borrowings on the Statement of Financial Position exclude the debt issued on behalf of government business enterprises such as Manitoba Hydro-Electric Board as well as sinking funds which are used to repay the debt. However, net borrowings are only part of the government's total liabilities;
- Total liabilities represent all the amounts owed by the government including amounts owed to employees for future benefits such as pensions and retirement allowances (severance);
- Government's annual surplus (deficit) (see **Appendix B**, page 148) indicates whether a government has raised sufficient revenues to pay for its expenses for that fiscal year. The expenses reported include the cost of using existing and new capital assets which is referred to as amortization expense. If revenues equal expenses then a government is considered to have maintained its net assets (there is no increase in the accumulated deficit);
- Government's change in net debt (see **Appendix B**, page 150) reflects whether the government's revenues were sufficient to cover their expenses and other spending such as the funds spent on the purchase or construction of tangible capital assets. The level of net capital spending may also be compared to the planned (budgeted) level of capital spending. An increase in net debt indicates that more future revenues will be required to pay for past transactions;
- Government's cash flows are reported on the Statement of Cash Flow and identify the change in cash (and cash equivalents) and the source and use of cash through operating, investing and financing activities. It also highlights net capital spending and how cash was used to acquire capital assets;
- Budgeted and actual figures should be shown on the Statements of Revenue and Expense (Operations) and Change in Net Debt (see **Appendix B**, pages 148 and 150). Unfortunately at this time, only the Special Purpose Financial Statements disclose detailed budgeted figures on the Schedule of Operating Fund Revenue and Expense (Schedule 8) (see **Appendix D**, page 224); the Summary Financial Statements disclose only net revenues by crown organization (Schedule 9) (see **Appendix B**, page 185);
- The budget is a guide to the government's public policy decisions. It establishes the estimates of revenues and expenses as well as capital spending for each fiscal year. The budget reflects the government's financing requirements to support both operating and capital spending. It is also used to determine the extent of new borrowings needed and influences the setting of tax rates and users' fees;

- Government's budget is also an important accountability document and is used as a benchmark against which their performance is measured. Planned spending is compared with actual spending. The government is accountable for their programs, the cost of services (programs) provided as well as their financial position. The cost of services should be reported by function such as Health and Education. As a result, the budget should be presented on a basis that is consistent with or at least reconciled with how the information is presented in the Summary Financial Statements;
- Government's significant accounting policies are disclosed in note 1 to the Summary Financial Statements. These accounting policies are integral to understanding how a government accounts for transactions and events and should indicate whether they are set in accordance with Canadian generally accepted accounting principles (GAAP);
- In order to have meaningful comparisons between planned and actual results, the same accounting policies must be used to reflect the prior year's and the current year's annual results. The prior's year annual results along with the current year's results must be restated to reflect the effects of any change in accounting policy;
- The Auditor's Report states whether the accounting policies have been applied on a consistent basis with that of the preceding year. A consistent basis means that where there have been changes in accounting policies, the prior years' as well as the current year's results have been restated to show the reader the impact of the changes; and
- Other notes to the Summary Financial Statements also provide disclosure and explanations regarding significant transactions and events in the reporting period as well as information about contingent liabilities and contractual obligations, related party transactions and subsequent events. Note disclosure is not a substitute for proper accounting treatment which means that transactions must be reflected in the Statements of Financial Position and Revenue and Expense (Operations) unless only note disclosure is required under GAAP.

FINANCIAL CONDITION

In order to assess the government's financial condition, the Canadian Institute of Chartered Accountants selected a set of financial indicators which provide an analysis of the state of a government's management of their finances.

The Canadian Institute of Chartered Accountants Research Report on Indicators of Government Financial Condition [1997] (Research Report) also indicates that the Summary Financial Statements should be used to determine the financial indicators. The Research Report defines the financial condition of a government as follows:

> *"The financial condition of the government is its financial health as measured by sustainability, vulnerability and flexibility, looked at in the context of the overall economic and financial environment. These terms are defined as follows:*

- ***Sustainability**: the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.*
- ***Flexibility**: the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.*
- ***Vulnerability**: the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international. "*

Financial condition focuses on the finances of the government. It is not intended to assess the financial condition of the economy, or overall government performance or current fiscal policy or government solvency. It is not an assessment of the effectiveness of government spending and revenue decisions. The intended outcomes of government activities are important and should be discussed but not as indicators of financial condition. The financial condition of a government needs to be assessed relative to the economy, and benchmarks (targets) should be used to measure the government's relative financial condition as well as assess long term trends. The Government of Manitoba has not established its own targets for such indicators.

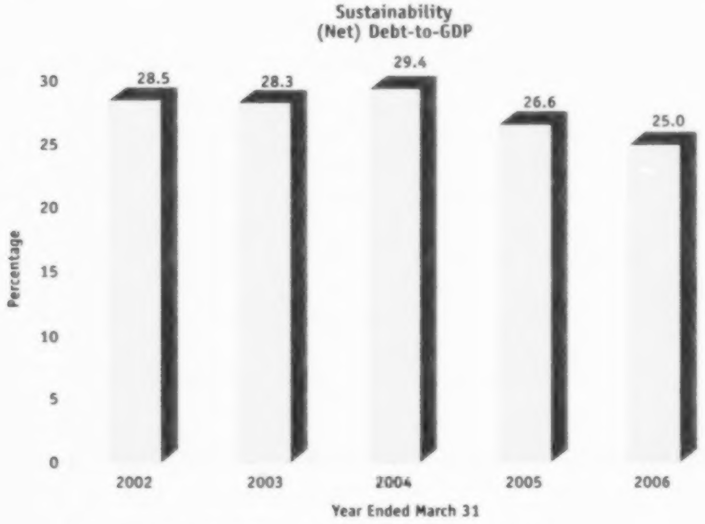
Overall, the financial condition of the government is different from the financial condition of the economy. The benefits that are generated by government financial activities are different from the benefits created by the financial activities of private sector organizations. For the most part, the benefits of the financial activities of private sector organizations accrue to the organizations and increase their net wealth. Most of the benefits that are generated by government financial activities accrue to society and are not reflected on the government's balance sheet (statement of financial position) even though the shortfall or deficit resulting from these activities becomes part of the government's debt. A case in point is the investment in health and education which benefits society as a whole but is not reflected on the government's balance sheet.

For the 2002 – 2006 fiscal years, seven of the ten financial indicators recommended in the CICA Research Report are presented below. Two of the other three indicators are national indicators and their relevance to assessing the Province's financial condition is not clear. The third remaining indicator is the Foreign-Held Government Debt-to-Net Government Debt. Foreign held debt information (foreign investors holding Manitoba debentures) can only be derived from the paying agents' records. The cost of obtaining this information is considered to outweigh the benefits of presenting it. The Annual Report of the Province of Manitoba for the year ended March 31, 2006 included five of these financial indicators, [Net] Debt-to-GDP, Debt Servicing Charges-to-Revenues, Own Source Revenues-to-GDP, Government-to-Government [Federal] Transfers-to Own Source Revenues and Foreign Currency Debt-to-Net Government Debt which is described as Unhedged Foreign Debt as a percentage of Net Debt.

Sustainability Indicators

- (Net) Debt-to-GDP ratio measures the level of net debt (total liabilities less financial assets) a government carries as percentage of its Gross Domestic Product (see **Appendix J**). An increasing Debt-to-GDP ratio means that the debt burden on taxpayers is growing and more of the government's future revenues will be required to repay that debt. The Province's (Net) Debt-to-GDP ratio over the five year period presented, on a restated basis, reached its highest point in 2004. In 2005, the indicator dropped significantly and dropped further in 2006. The Federal Government's target for this ratio was set in its 2006 Budget at 25% by 2014/15. The Government of Manitoba has not established a target ratio.

FIGURE 3A

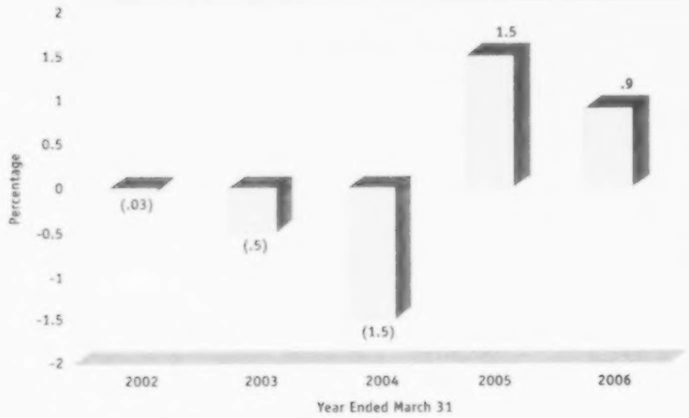


Source: Annual Report of the Province of Manitoba for the year ended March 31, 2006.

- (Surplus) Deficit-to-GDP ratio measures the difference between government annual revenues and expenses as a percentage of GDP. It can be used to identify the annual surplus (deficit) that would be required to stabilize the Debt-to-GDP ratio at a specified rate of economic growth. For instance, if the rate of the growth in the economy is 3% and interest rates are 5%, then if all other factors remaining the same, the Debt-to-GDP ratio will increase. In order to stabilize the Debt-to-GDP ratio in this situation, revenue must exceed program expenses to offset the difference in the rate of growth in the economy compared to the level of interest rates. The target used for the (Surplus) Deficit [Annual]-to-GDP ratio of the Federal Government was 2.0 % (surplus) according the CICA Scorecard (Measuring Progress: The State of Federal Government Finances) prepared in 2001/02. The Government of Manitoba has not established a target ratio.

FIGURE 3B

Sustainability
Surplus (Deficit) [Annual]-to-Gross Domestic Product (GDP)[1]



(1) Calculated by the Office of the Auditor General.

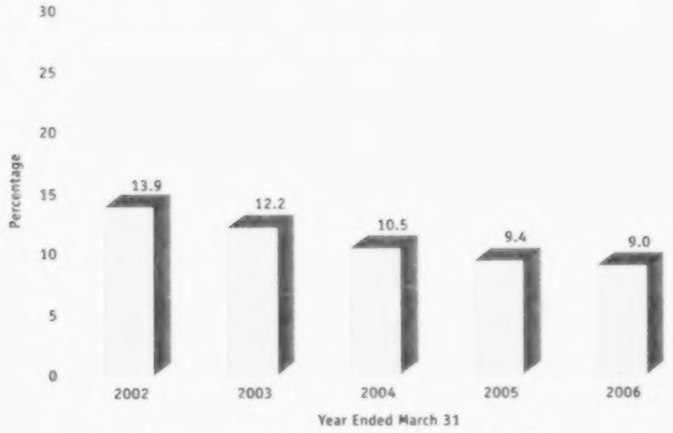
Sources: Information Tables from Statistics Canada and Annual Reports of the Province of Manitoba for the years ended March 31, 2002-2006.

Flexibility Indicators

- Debt service charges as a percentage of revenues show the percentage of revenue that is used to service the debt and also show the impact of increasing a government's net debt. Higher net debt puts pressure on interest rates, and higher interest rates result in increased debt servicing costs which reduce the revenue available to spend on programs. The target used for the Debt Servicing Charges-to-Revenues ratio of the Federal Government was 16.0% according to the CICA Scorecard (Measuring Progress: The State of Federal Government Finances) prepared in 2001/02. The Province's interest costs as a percentage of revenues have been steadily decreasing. The continued trend is a positive development. The Government of Manitoba has not established its target ratio.

FIGURE 4A

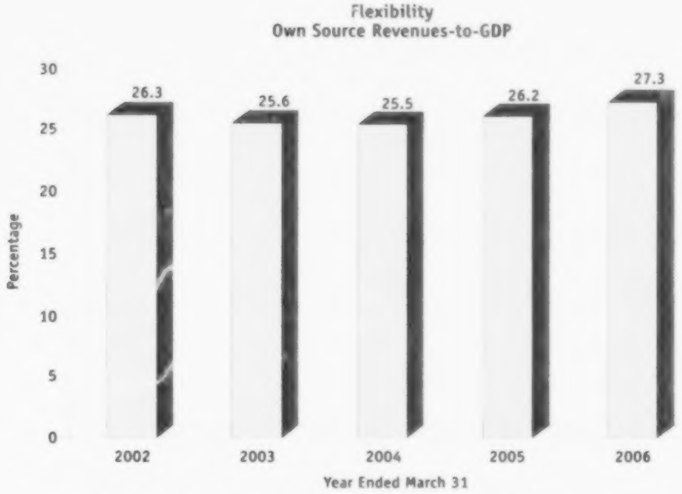
Flexibility
Debt Servicing Charges-to-Revenues



Source: Annual Report of the Province of Manitoba for the year ended March 31, 2006.

- Own Source Revenues-to-GDP shows the impact of raising government revenue as a percentage of income in the economy. A steady increase in this ratio is a warning to a government in terms of its ability to increase these revenues in the future. The Federal Government's target was 16.0% according to the CICA Scorecard (Measuring Progress: The State of Federal Government Finances) prepared in 2001/02. The Province's ratio, on a restated basis, has been increasing since the 2004 fiscal year. The Government of Manitoba has not established its target ratio.

FIGURE 4B

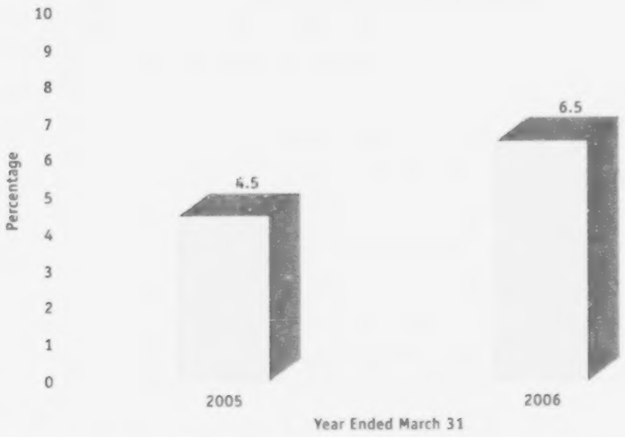


Source: Annual Report of the Province of Manitoba for the year ended March 31, 2006.

- Changes in Physical Capital Stock (tangible capital assets including infrastructure) is an indication of the extent of deferred capital maintenance. Deferring capital maintenance delays when capital stock is maintained or restored, and generally results in higher costs when the maintenance is performed because of an increased level of deterioration. This ratio indicates the pace of the spending to replace tangible capital assets and it is usually reflected as the percentage change in the net book value (cost less accumulated amortization) year over year. The limited trend available, on a restated basis, indicates an increase in spending by the Province.

FIGURE 4C

Flexibility
Changes in Physical Capital Stock(1)



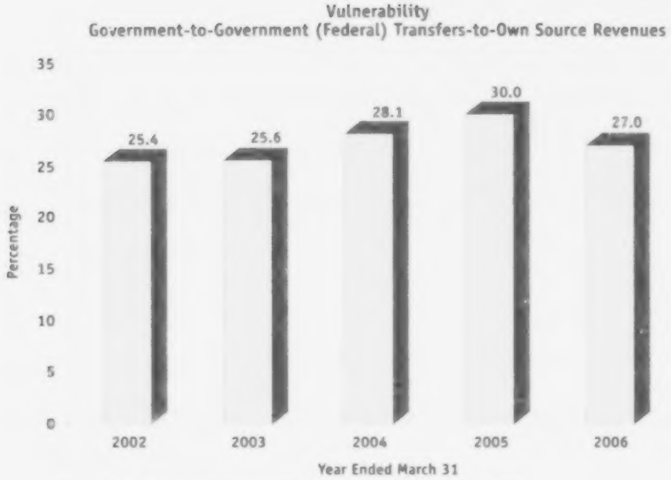
(1) Calculated by the Office of the Auditor General (on a restated basis).
Source: Data from the Annual Report of the Province of Manitoba for the year ended March 31, 2006.

Vulnerability Indicators

- Government-to-Government Transfers-to-Own Source Revenues is, in a provincial government context, the dependence of a government on federal government transfers (revenue). The trend of this ratio indicates an increasing dependence on federal government transfers except for 2006. The 2006 ratio, on a restated basis, reflects a decrease in the relative dependence on federal government transfers. The Government of Manitoba has not established its target ratio.

  It should be noted that the increase in federal transfers in essence was provided to restore past funding cuts to all provinces, including Manitoba, and as well some of the federal funding mechanisms have resulted in multi-year transfers being provided in a lump sum that would otherwise have been received as annual transfers. Between 2002 and 2005, the federal government increased its funding for provincial health and social programs so as to substantially restore its share of the costs of delivering these services, which had declined with the introduction of the Canada Health and Social Transfer in 1997. That increase is comprised of higher entitlements under the new Framework arrangements announced by the federal government in October 2004.

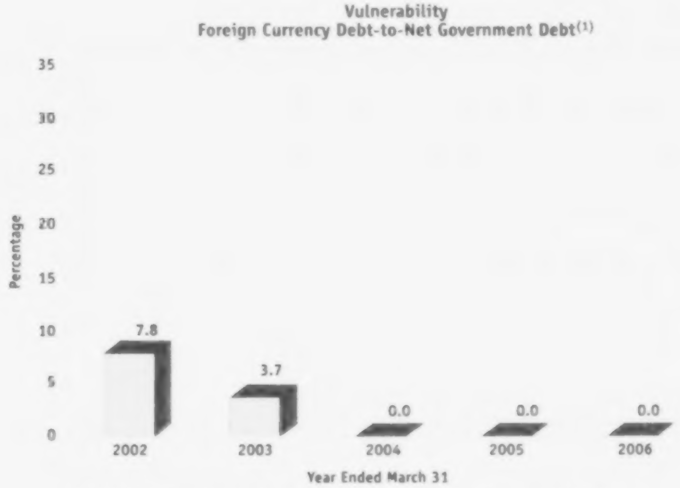
FIGURE 5A



Source: Annual Report of the Province of Manitoba for the year ended March 31, 2006.

- Foreign Currency Debt-to-Net Government Debt is the debt payable in foreign currencies as a percentage of net government debt. It is an indicator of the potential impact of foreign currency exchange rates of the Canadian dollar relative to foreign currencies which can increase debt servicing costs and the cost of repaying the debt. The Province believes that for the past three years that they have fully hedged (eliminated) this risk through their activities. Even without the effects of hedging, the percentage of foreign currency debt to net debt in 2006 compared with 2002 indicates a significant decrease.

FIGURE 5B



(1) Described as Unhedged Foreign Debt-to-Net Debt in the Annual Report of the Province of Manitoba for the year ended March 31, 2006.

Source: Annual Report of the Province of Manitoba for the year ended March 31, 2006.

SUMMARY OF RECOMMENDATIONS

Summary of Recommendations

Discussion leading to the following recommendations is presented in further detail within this report's section "Public Accounts - Improvements and Recommendations".

Recommendation 1

That the Government continue to report progress toward its commitment to implement summary budgeting by 2007/08 to the Members of the Legislative Assembly and the public on a regular basis.

RESPONSE FROM OFFICIALS

The Manitoba Government remains committed to the presentation of its budget and other financial reports on a Summary basis. Progress has already been demonstrated to the Members of the Legislative Assembly and the public in published financial reports, such as the 2004/05 and 2005/06 Summary Financial Statements. The Government will produce the 2007/08 Budget on a Summary basis and will continue to demonstrate further progress in the 2006/07 fiscal year financial statements.

Recommendation 2

That the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with the generally accepted accounting principles framework as soon after the full implementation of summary budgeting in 2007/08 as practicable.

RESPONSE FROM OFFICIALS

As indicated in the response to Recommendation 1, the Manitoba Government will present its Budget and other financial reports on a Summary basis. This will include quarterly reporting, with a view to implementing as early as practicable following the full implementation of Summary budgeting and reporting in 2007/08.

Recommendation 3

That the Government continue with its commitment to introduce amendments to the Financial Administration Act to eliminate the requirement for separate Consolidated Fund (Operating Fund) Financial Statements.

RESPONSE FROM OFFICIALS

The Manitoba Government is committed to eliminating a separate Consolidated Fund (Operating Fund) Financial Statement in 2007/08. In 2007/08, while the primary focus will be the Summary Financial Statements, the Legislative Assembly will continue to approve the spending of Government departments, and will require information concerning revenues from taxes, fees, transfers from other Governments, and revenue from the operations of crown corporations used to support government programs and services.

Recommendation 4

That consideration be given to amending the Balanced Budget Legislation to refer to the Summary Financial Statements prepared in accordance with GAAP.

RESPONSE FROM OFFICIALS

The Manitoba Government has consulted with various interest groups and business leaders, as well as the Auditor General as it considers changes that appropriately reflect the Government's goals of maintaining financial discipline and protecting essential services in the context of Summary Budget reporting.

Recommendation 5

That Internal Auditing and Consulting Services revisit their role and expand their work on an annual basis to test controls over financial reporting, including computer application controls in SAP and other significant information systems. Where practical, expand the work to include general computer controls.

RESPONSE FROM OFFICIALS

Internal Audit and Consulting Services is in the process of developing a long-term corporate audit strategy to provide sufficient and timely assurance services to assist the Office of the Provincial Comptroller in monitoring and evaluating financial processes and systems integrity throughout the provincial government. This strategy will include an enhanced risk based approach and a focus on effective comptrollership practices at the departmental level. Increased emphasis will be placed on government wide and horizontal audit approaches, which should result in enhanced reporting on systematic findings and best practices. Further, the role envisioned includes improved annual reviews of SAP and other significant information systems to clearly assess the adequacy of security practices and controls for ensuring the confidentiality, integrity and availability of information electronically stored, processed or transmitted.

Recommendation 6

That managers be given purchasing approval rights in SAP in accordance with Department Delegation of Financial Signing Authority Charts.

RESPONSE FROM OFFICIALS

Executive Financial Officers in each department are charged with the responsibility of ensuring that appropriate control processes are in place, including purchasing approval rights. Delegation of signing authorities and purchasing approval rights, including setting the corresponding approval rights in SAP, are a departmental responsibility. Monitoring and documenting of this is an ongoing activity and integral to the overall management of SAP. This responsibility has been communicated to all departments. As noted, departments are required to address this issue in their departmental Comptrollership plans.

Recommendation 7

That the system of Department Delegation of Financial Signing Authority Charts, including specimen signature cards, be reviewed for improving, possibly through automation, the maintenance and availability of the documentation.

RESPONSE FROM OFFICIALS

The structure of Department Delegation of Financial Signing Authority Charts, is documented within the Financial Administration Manual. Departments are reminded annually of their responsibility to the maintenance of these charts. The structure and process continues to be reviewed for possible improvements.

Recommendation 8

That the Comptroller's Office monitors the purchasing approval rights of users in SAP to ensure that such rights are not excessive and comply with the requirements of the Financial Administration Manual.

RESPONSE FROM OFFICIALS

The Comptroller's Office will continue to review this process to ensure that the purchasing approval rights assigned to users in SAP are within specified guidelines and approved departmental delegated authorities, and that they are being provided in accordance with the requirements of the Financial Administration Manual.

Recommendation 9

That the Comptroller's Office in collaboration with the Office of the CIO review the use of security software tools to better manage the risks involving users with incompatible duties.

RESPONSE FROM OFFICIALS

IT Security continues to be a primary focus of the Government. The Comptroller's Office and the CIO continue to evaluate the security design of the financial and HR access roles in SAP, with a view to providing a more enhanced architectured structure of SAP security, as well as streamlining the security maintenance requirements.

Recommendation 10

That the Comptroller's Office in collaboration with the Office of the CIO ensure that business impact analyses be conducted on a coordinated basis by Departments to help develop suitable plans to recover computer processing capabilities in response to adverse events that disrupt computer processing services or facilities.

RESPONSE FROM OFFICIALS

A Business Continuity Planning (BCP) initiative is being led by Manitoba EMO and includes a plan to recover computer processing capabilities in response to adverse events that disrupt computer processing services or facilities. The Risk Management unit of ICT Services in the Department of

Science, Technology, Energy, & Mines is working on this business resumption plan for IT services, as part of the larger government-wide initiative on overall Business Continuity Planning (BCP).

Recommendation 11

That the business impact analyses be used on a coordinated basis to develop suitable plans to continue critical business functions in response to adverse events that disrupt business operations.

RESPONSE FROM OFFICIALS

Further to our response to Recommendation 10, the overall BCP plan will incorporate best practices from Disaster Recovery Institute International, Standards Australia International, NFPA 1600 – Standard on Disaster Management/Business Continuity Programs, and from discussions with other provinces that have developed BCP Programs. The Business Continuity Teams established will identify mission critical or vital functions prioritized based on severity, evaluate associated risks, and the required recovery times and steps in order to recover key operating functions of the government.

Recommendation 12

That disaster recovery and business continuity plans be documented and tested to ensure their effectiveness.

RESPONSE FROM OFFICIALS

Further to our response to Recommendations 10 and 11, as part of the development of the Business Continuity Plan, there is a requirement for BCP Team leaders to provide documented BCP Plans for each department, including significant detail regarding mission critical or vital functions, resources required, recovery time required, and the business owner responsible for actioning. The initiative also includes plans for testing.

Recommendation 13

That the Government develop suitable, generally accepted criteria to be used in determining an amount of emergency expenditures to be excluded under Section 3(2) of the Balanced Budget, Debt Repayment, and Taxpayer Accountability Act or under the amended legislation and communicate these criteria to the Members of the Legislative Assembly.

RESPONSE FROM OFFICIALS

The Government is consulting the Auditor General as it develops changes that appropriately reflect the Government's goals of maintaining financial discipline and protecting essential services in the context of Summary Budget reporting.

Recommendation 14

That the Government develop a plan to discharge its obligations for vacation and severance pay to the various government organizations involved. That the Government also clearly communicate to these organizations, the portion of the annual funding provided by the Province, if any, that relates to the increase in vacation and severance pay liabilities.

RESPONSE FROM OFFICIALS

Response included under Recommendation 15.

Recommendation 15

That the Government develop a plan to discharge its loans from and funding commitments to government organizations for pension liabilities.

RESPONSE FROM OFFICIALS

In response to Recommendations 14 and 15, the Manitoba Government is considering options regarding treatment of these liabilities, and will consider these Recommendations in its deliberations. It should be noted that these liabilities are accounting accruals, not cash requirements. The Manitoba Government has communicated to organizations that they are expected to manage increases to these liabilities within their current funding levels.

Recommendation 16

That the Province of Manitoba continue to reshape its Annual Report into a document that more closely reflects PSAB's Statement of Recommended Practice on Financial Statement Discussion and Analysis and PSAB's Statement of Recommended Practice on Public Performance Reporting.

RESPONSE FROM OFFICIALS

Manitoba is committed to advancing the way in which performance is reported to citizens, and has made important progress in this area in 2005/06 with the release of two public documents – the first ever overall government report on performance, Reporting to Manitobans on Performance: 2005 Discussion Document, and The 2005 Provincial Sustainability Report. In addition, for the first time, all departments have included a separate section on performance measures in their 2005/06 annual reports. These reports are now more easily available to the public through the Department of Finance website.

Manitoba will also continue to make changes to the provincial Annual Report as part of the implementation of summary budgeting and reporting.

Recommendation 17

That the Province of Manitoba further assist departments to improve performance measurement and reporting through guidance based on the CICA Statement of Recommended Practice on Public Performance Reporting.

RESPONSE FROM OFFICIALS

Manitoba continues to be committed to enhancing performance reporting, including supporting performance reporting as it relates to departmental planning and management.

As noted in the response to Recommendation #16, in 2005, Manitoba published Reporting to Manitobans on Performance: 2005 Discussion Document http://www.gov.mb.ca/finance/mbperformance/index.html, which was the first integrated document highlighting major areas of performance across government departments. The document featured 16 major performance measures, across four categories: economy, people, community and environment.

Also in 2005, the first edition of the Provincial Sustainability Report was published http://www.gov.mb.ca/conservation/susresmb/indicators/index.html. This document reported public performance indicators across a number of areas, with a focus on sustainability in the categories of natural environment, economy (including consumption and waste management) and social well-being.

For the 2005/06 fiscal year, revised requirements for departmental annual reporting were introduced with the goal of enhancing the profile and accessibility of performance reporting in departmental annual reports. A standardized section is now included in each annual report, providing a selection of departmental performance measures with an explanation of their relevance, a discussion of issues, and trend information where it is available. These reports are available on-line to the public.

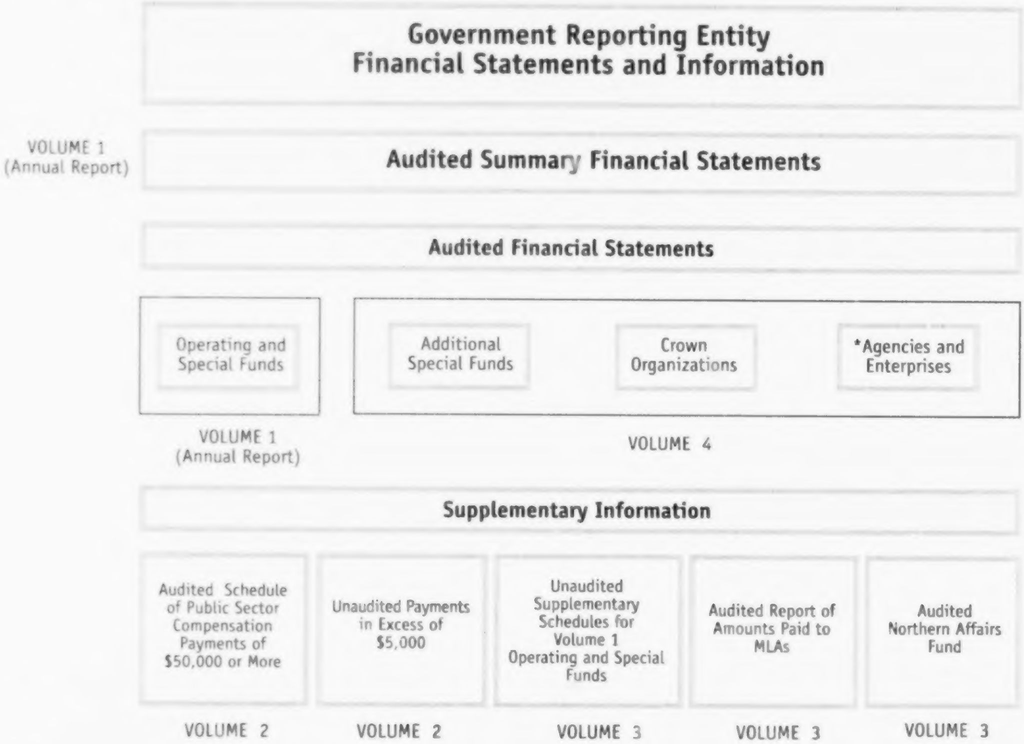
To support the development of skills and capacity for this effort, a series of workshops was conducted in early 2006 for senior financial management, program management and planners across government. In addition, several customized presentations and workshops were provided throughout the year for departments that requested more guidance.

OVERVIEW OF THE PUBLIC ACCOUNTS

Financial Reporting Structure

FIGURE 6

Financial Reporting Structure of Manitoba's Public Accounts


Government Reporting Entity
Financial Statements and Information
VOLUME 1 (Annual Report)
Audited Summary Financial Statements
Audited Financial Statements
Operating and Special Funds
Additional Special Funds
Crown Organizations
*Agencies and Enterprises
VOLUME 1 (Annual Report)
VOLUME 4
Supplementary Information
Audited Schedule of Public Sector Compensation Payments of $50,000 or More
Unaudited Payments in Excess of $5,000
Unaudited Supplementary Schedules for Volume 1 Operating and Special Funds
Audited Report of Amounts Paid to MLAs
Audited Northern Affairs Fund
VOLUME 2
VOLUME 2
VOLUME 3
VOLUME 3
VOLUME 3

* Detailed Audited Financial Statements of Special Operating Agencies (SOAs) are included in a separate annual report prepared for the Special Operating Agencies Financing Authority (SOAFA)

The Public Accounts of Manitoba represent the annual financial statements for the Province of Manitoba (Province). These financial statements provide an important link in an essential chain of public accountability. They are the principal means by which the Government reports to the Legislative Assembly and to all Manitobans on its stewardship of public funds.

The Public Accounts are prepared in accordance with *The Financial Administration Act* and contain the financial statements and supporting information required by this legislation. The Public Accounts also includes information required by other legislation such as *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* and by *The Public Sector Compensation Disclosure Act*.

Public Accounts are represented by two distinct sets of financial statements. The Summary Financial Statements are the General Purpose statements of the Government.

They provide audited information on the aggregate financial affairs and resources for which the Government is responsible, including government business enterprises and crown organizations as listed in **Appendix E**. The Summary Financial Statements are prepared in accordance with public sector accounting standards (as issued by the Public Sector Accounting Board [PSAB]) of the Canadian Institute of Chartered Accountants (CICA), except for the non-consolidation of public school divisions. These statements are the appropriate statements to use when comparing the operating results and the financial position of the Province to other provinces and the federal government. The consolidated net income reported in the Summary Financial Statements of the Government for 2005/06 was $375 million.

The other set of financial statements presented in the Public Accounts are the Financial Statements of the Operating Fund and Special Funds. They are Special Purpose in nature and are used as the Government's accountability report to the Legislative Assembly on revenues raised and expenditures made as authorized by *The Appropriation Act* and other statutory spending authorities. These financial statements are also used to reflect the Government's compliance with *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. For 2005/06 the Government recorded a positive balance of $31 million including the interfund transfer to the Debt Retirement Fund and, therefore, was in compliance with balanced budget legislation. These statements do not incorporate the Government's unfunded pension liabilities or the results of other organizations controlled by the Government as included in the Summary Financial Statements.

The Public Accounts for the 2005/06 fiscal year are published in four volumes. The preceding chart illustrates the structure of the Government's financial reporting in the Public Accounts.

Volume 1, *Province of Manitoba Annual Report*, contains:

- the audited Summary Financial Statements;
- the audited Special Purpose Financial Statements of the Operating Fund and Special Funds (Operating Fund);
- the Minister of Finance's comments for the year ended March 31, 2006;
- information on the Manitoba economy;
- discussions on financial indicators; and
- variance explanations for both the Summary Financial Statements and the Special Purpose Financial Statements of the Operating Fund.

Volume 2, *Supplementary Information*, contains details of employee compensation of $50,000 or more, as well as information on other payments from the Operating Fund in excess of $5,000 to corporations, firms, individuals, other governments and government agencies. The information on employee compensation of $50,000 or more is audited as required by *The Public Sector Compensation Disclosure Act*. The information on other payments from the Operating Fund to corporations, firms, individuals, other governments and government agencies is unaudited.

Volume 3, *Supplementary Schedules and Other Statutory Reporting Requirements*, provides additional information on the Operating Fund of the Government. This financial information is unaudited with the exception of the Report of Amounts Paid to MLAs and the Northern Affairs Fund.

Volume 4, *The Financial Statements of Funds, Organizations, Agencies and Enterprises Comprising the Government Reporting Entity*, contains the individual audited financial statements of the various entities controlled by the Government which are included in the Government Reporting Entity for the Province of Manitoba, except for the Operating Fund and Special Operating Agencies (SOAs). (However, Volume 4 contains the financial statements for the Special Operating Agencies Financing Authority.) The audited financial statements of SOAs are included in a separate annual report prepared for the Special Operating Agencies Financing Authority.

Accountability Organization

FIGURE 7

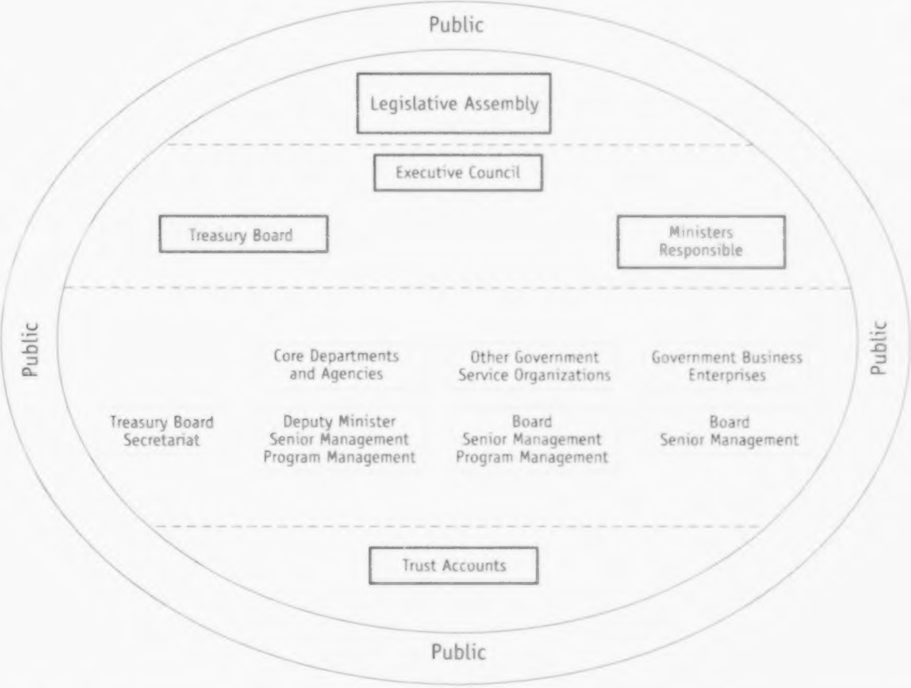

Public
Legislative Assembly
Executive Council
Treasury Board
Ministers Responsible
Public
Public
Core Departments and Agencies
Other Government Service Organizations
Government Business Enterprises
Treasury Board Secretariat
Deputy Minister Senior Management Program Management
Board Senior Management Program Management
Board Senior Management
Trust Accounts
Public

Figure 7 provides an overview of the accountability organization of the provincial public sector. It is not intended to represent all parties or relationships involved, but rather to emphasize that various levels that exist, and that accountability to the public is relevant at all levels.

It can be used when considering accountability at various levels within Provincial operations reflecting the Government's accountability to citizens, to the Legislative Assembly, Departments' and Provincial public sector entities' accountability to the Government, Deputy Minister's or Board's accountability to a Minister, and management's accountability to a Deputy Minister.

Auditor Independence and Objectivity

As a member of the legislative audit community, we maintain the highest standards of independence and objectivity in the conduct of our audits. In Manitoba, our audit role has included an involvement with prospectuses as well as the financial statement audit of the Public Accounts and other organizations. We do not provide non-assurance services such as designing or implementing a hardware or software system, valuation services, financial statement preparation or bookkeeping services, legal services or internal audit services. In the private sector, provision of these services by external auditors and inadequate rotation of the audit partner have been identified as contributing to failures to provide the high level of assurance associated with generally accepted auditing standards.

Because legislative auditors report directly to the Legislative Assembly, we are independent of government. Further, because we have no financial interest in organizations we audit, and do not benefit from the audit fees we charge, we are less vulnerable to independence threats existing in the private sector.

Similarly, the threat that we might become too sympathetic to an audited organization's interests to maintain our objectivity is dealt with in the political process by the requirement for periodic general elections as well as the ten year term of the appointment of the Auditor General. In addition, staff rotation on the audit of the Public Accounts and the influence of the broader legislative audit community assist us in maintaining our objectivity.

During the past year we maintained our communication with audit committees or their equivalents and continued to take steps to ensure that the private sector auditors of the organizations within the government reporting entity adhered to independence and conflict of interest standards.

We believe that we provide a high level of assurance in our reports to the Legislative Assembly, and therefore to the citizens of Manitoba, and we will continue to ensure our independence and objectivity in all our work.

Our staff members are required to disclose any conflicts of interest each year. We are guided by the Institute of Chartered Accountants of Manitoba, whose rules of professional conduct prohibit anyone from auditing an organization where they were an officer or director within the last year.

The current Auditor General's involvement as a director of the board at Manitoba Hydro-Electric Board, prior to her appointment in July 2006, required the Deputy Auditor General to sign the audit opinions for the Public Accounts for the year ended March 31, 2006.

Summary Financial Statements - Auditor's Report

The Government continues to commit to financial reporting focused on the Summary Financial Statements and to eliminate published audited Special Purpose Financial Statements by the 2007/08 fiscal year.

The Auditor's Report on the Summary Financial Statements is included for reference in **Appendix A** at the end of this report, along with the Summary Financial Statements for the year ended March 31, 2006 contained in **Appendix B**.

The Auditor General Act requires the Auditor General to provide assurance to the Legislative Assembly on the annual Public Accounts and other accountability documents prepared by the Government. To address this mandate, the office issues high level assurance reports in the format of the standard auditor's report recommended by the Canadian Institute of Chartered Accountants (CICA).

The purpose of the auditor's report is to provide the reader with a high level of assurance on the fairness of financial statements, while describing the distinct roles of management and the auditor with respect to these financial statements, and outlining the nature and scope of audit work conducted.

An unqualified auditor's report, where there is no reservation of opinion, contains three standard paragraphs. The introductory paragraph identifies the financial statements that have been audited and reflects management's responsibility for preparing the financial statements as well as the auditor's responsibility for expressing an opinion on the fairness of the balances, transaction totals and overall presentation. The second paragraph describes the nature and extent of the auditor's work and the degree of assurance that the auditor's report provides. It refers to Generally Accepted Auditing Standards (GAAS) and describes some of the important procedures the auditor undertakes. The third paragraph contains the auditor's opinion or conclusion based on the audit conducted.

The Public Sector Accounting Board (PSAB) of the CICA sets generally accepted accounting principles (GAAP) for the public sector in Canada. PSAB pronouncements represent the consensus of senior government officials, legislative auditors and other experts in public sector accounting across Canada. They represent standards for governments and are the benchmark for acceptable financial reporting.

The auditor's reports issued by Manitoba's Auditor General, as well as by other legislative auditors across Canada reflect the extent to which government financial statements comply with these auditing, accounting and financial reporting standards. In situations where government financial statements do not comply with PSAB standards, legislative auditors consider the need to include a reservation in their opinion. These standards are designed to apply to the Summary Financial Statements of the Government.

For the year ended March 31, 2006, the Auditor's Report on the Summary Financial Statements included a reservation (third paragraph) for the non-consolidation on public school divisions' financial statements.

- *The reservation stated that the effects of the non-consolidation of public school divisions on the reported assets, liabilities, revenues and expenses, and the information provided by way of notes to the financial statements cannot be determined. (Public school divisions were added to the Reporting Entity of the Government of the Province of Manitoba commencing with the 2005/06 fiscal year).*
- *The opinion paragraph stated that except for the effects of the inability to consolidate the assets, liabilities and operating results of public school divisions, the Government of the Province of Manitoba prepared Summary Financial Statements that were in accordance with Canadian generally accepted accounting principles (for senior governments).*

This reservation is expected to continue until the 2007/08 fiscal year when it is anticipated that the Government will be able to consolidate the financial position and operating results of public school divisions in accordance with public sector accounting standards. We discuss this issue further in this Report in a section entitled "Consolidating Public School Divisions".

In Manitoba, the Summary Financial Statements are presented in the Annual Report, together with the Auditor General's Report thereon. In 2005/06, the Auditor's Report was signed by the Deputy Auditor General.

Special Purpose Financial Statements of the Operating Fund and Special Funds - Auditor's Report

AUDIT OPINION ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS OF THE OPERATING FUND AND SPECIAL FUNDS

The Auditor's Report on the Special Purpose Financial Statements of the Operating Fund and Special Funds is included for reference in **Appendix C**, along with the Operating Fund and Special Funds Financial Statements for the year ended March 31, 2006 contained in **Appendix D**.

As mentioned previously, the Financial Statements of the Operating and Special Funds (Operating Fund) are special purpose in nature. They currently serve as the Government's accountability report to the Legislative Assembly on revenues raised and expenditures made as authorized by *The Appropriation Act* and other statutory spending authorities. These financial statements are specifically used to reflect the Government's compliance with *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* and *The Financial Administration Act*.

Special Purpose Financial Statements are by their nature incomplete and often deviate significantly from GAAP. Hence, while required for reporting on compliance with balanced budget legislation, they are not complete for understanding the Government's management of its financial affairs. These statements focus only on one component of the government reporting entity. Proponents claim they are relevant because they show tax supported activities of government. However, this argument is flawed for at least three reasons:

1. In 2006, $700 million of Operating Fund revenue was from Crown Corporations.
2. The Operating Fund ignores pension costs that will ultimately have to be paid through taxes.
3. "Rainy Day" Fund transfers are essentially left over money from the sale of MTS and multi-year federal transfers (Canada Health Transfers and Equalization Transfers).

FIGURE 8

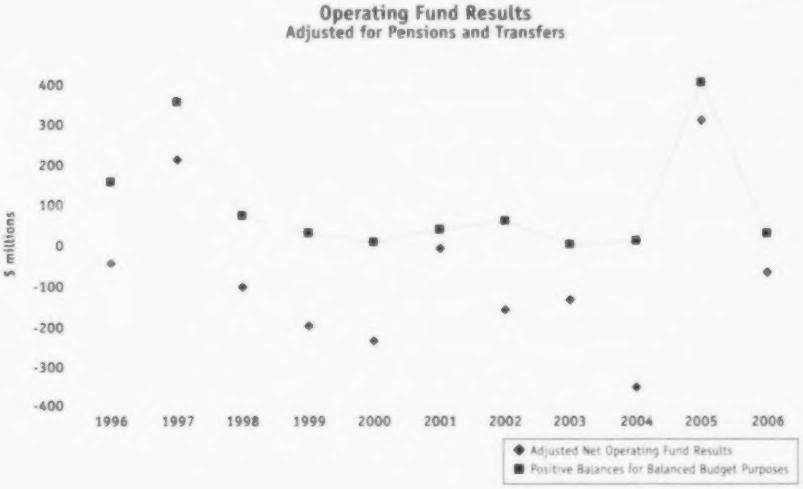
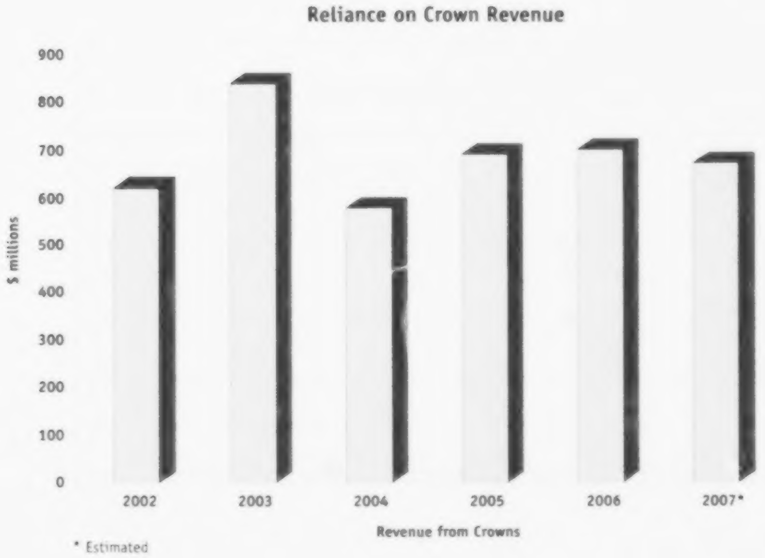


FIGURE 9



Because of the changes to generally accepted auditing standards effective for the 2003/04 fiscal year and thereafter, the Auditor's Report on the Special Purpose Financial Statements of the Operating Fund and Special Funds has continued to include a more detailed reference to the fact that the financial statements are special purpose and not prepared in accordance with Canadian generally accepted accounting principles. The Auditor's Report no longer states that the Special Purpose Financial Statements are fairly presented mainly because of the limitations of the Special Purpose Financial Statements, which are discussed in the opinion as follows:

> ***"These financial statements report transactions and events of the Operating Fund and Special Funds only. Significant financial activities of the Government occur outside of these funds. Therefore, readers should not use these special purpose financial statements to understand and assess the Government's overall management of public financial affairs and provincial resources.***
>
> ***The Summary Financial Statements are complete financial statements. Their purpose is to report the full nature and extent of the overall financial affairs and resources of the Province of Manitoba for which the Government is responsible.***
>
> ***Please refer to the Summary Financial Statements to understand and assess the Government's management of public financial affairs and provincial resources as a whole."***

In addition, there are also paragraphs following the opinion paragraph, which emphasized the special purpose nature of the financial statements and the fact that they are intended for the Legislative Assembly as legislators reviewing compliance with Balanced Budget Legislation and identified exceptions from GAAP as follows:

> ***"Exceptions from Generally Accepted Accounting Principles***
>
> *These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles for the public sector (GAAP), are solely for the information and use of the Members of the Legislative Assembly for the purpose of determining compliance with The Balanced Budget, Debt Repayment and Taxpayer Accountability Act. The financial statements are not intended to be and should not be used by lenders, bond rating agencies, citizens, or anyone other than the specified users or for any other purpose. Specifically, these statements should not be used to assess the fiscal performance of the government as this information is only available in the Summary Financial Statements.*
>
> *The Special Purpose Statement of Revenue and Expense along with the Special Purpose Statement of Calculation of Balance under The Balanced Budget, Debt Repayment and Taxpayer Accountability Act should be analyzed in two parts. The first part, showing the calculation of Net Result for the year, has been determined using the accounting policies described in Note 1 to the Special Purpose Financial Statements. These accounting policies differ materially from Canadian GAAP as described in Note 1, and therefore do not result in fair presentation. The second part is where the Net Result for the year is adjusted as authorized by The*

> *Balanced Budget, Debt Repayment and Taxpayer Accountability Act to determine a Positive Balance as defined by the Act. These adjustments, specifically inter-fund transfers, would not be included in the Special Purpose Statement of Revenue and Expense and a Special Purpose Statement of Calculation of Balance under The Balanced Budget, Debt Repayment and Taxpayer Accountability Act would not be produced had Canadian GAAP been used.*
>
> *If Canadian GAAP had been used in the preparation of the Special Purpose Financial Statements, financial assets would increase by $199 million (2005 - $246 million), non-financial assets would increase by $1,826 million (2005 - $1,707 million), liabilities would increase by $2,390 million (2005 - $2,649 million), net debt would increase by $2,191 million (2005 - $2,403 million), accumulated deficit would increase by $365 million (2005 - $696 million), revenue including net income from government business enterprises would increase by $2,209 million (2005 - $1,871 million), and expenses would increase by $2,062 million (2005 - $1,854 million). As well, the effects of the non-consolidation of public school divisions on the reported assets, liabilities, revenues and expenses, and the information provided by way of notes to the financial statements cannot be determined.*

The details of the exceptions to GAAP are separately disclosed and where possible, quantified, in Note 1 to the Special Purpose Financial Statements for the year ended March 31, 2006 as reproduced in **Appendix D**.

Opinion Paragraph

Our opinion paragraph this year again excluded the word 'fairly' from 'presents fairly'. This elimination is because of the limitations inherent in the Special Purpose Financial Statements in terms of presenting the financial position and operations of the government reporting entity of Province of Manitoba. It was also used to reinforce to the reader that only the Summary Financial Statements should be used to assess the Government's management of the Province of Manitoba's financial affairs and resources.

PENSION LIABILITIES EXCLUDED FROM THE OPERATING FUND

In 1990, our office issued our first audit qualification for pension liabilities not being recorded in the Financial Statements of the Operating Fund. Each year since then we have recommended the Government amend its accounting policy for pension costs and liabilities. In 2005/06, the unrecorded pension liability for the Operating Fund approximated $4.0 billion.

In 1999/00, the Government issued the Summary Financial Statements and the Financial Statements of the Operating Fund in a single volume with the Financial Statements of the Operating Fund subordinate to the Summary Financial Statements. As the pension liability is recorded in the Summary Statements, the impact on the entire Government Reporting Entity including the Operating Fund is transparent.

Starting in 2000/01, the Government committed to set aside funds equal to the pension contributions for all civil servants and teachers hired on or after April 1, 2000. They also committed to set aside additional funds from time to time for the future retirement of the pension liability. Effective October 1, 2002, departments and Crown Organizations also began setting aside funds equal to the pension contributions of civil servants hired on or after October 1, 2002, in effect, matching contributions, as part of their annual budget. Total funds set aside since the 2001 fiscal year including net investment income have amounted to $537 million or 14% of the unrecorded pension liability outstanding at March 31, 2006.

PUBLIC ACCOUNTS - IMPROVEMENTS AND RECOMMENDATIONS

Note: All official Provincial responses to our recommendations are contained in the Summary of Recommendations Section.

Significant Improvements in Financial Statement Reporting

SUMMARY FINANCIAL STATEMENT PRESENTATION AND DISCLOSURE

Improving financial statement presentation and disclosure is an ongoing process. We have advocated for a considerable number of years for the full adoption of GAAP in the preparation of the Summary Financial Statements. The Government has committed to consolidate public school divisions' financial statements and prepare Summary Financial Statements in accordance with GAAP by 2007/08.

We routinely advise the Comptroller, the Deputy Minister of Finance, and the Minister of Finance of opportunities to improve financial statement reporting in accordance with the current recommendations of the Public Sector Accounting Board (PSAB). There were significant improvements reflected in the Summary Financial Statements for the year ended March 31, 2006, as follows:

- Adoption of the redefined Reporting Entity of the Government of the Province of Manitoba based on control and consolidating nine additional entities, consisting of eight existing crown organizations and one new crown organization;
- Partial recognition of the Province's environmental liabilities; and
- Revision of the financial statement presentation related to contractual obligations and contingent liabilities including the use of derivative financial instruments.

ADOPTION OF THE NEW GOVERNMENT REPORTING ENTITY

The Government redefined its Reporting Entity (GRE) based on solely control in accordance with the change in PSAB standards, effective April 1, 2005. This redefinition of the GRE resulted in the consolidation of all the previous entities in the GRE as well as eight additional crown organizations, and the plan to consolidate all the public school divisions for the year ending 2007/08. The crown organizations added to the GRE were the University of Winnipeg, Collège universitaire de Saint-Boniface, the First Nations and Metis Child and Family Authorities, Manitoba Tire Stewardship Board, Sport Manitoba Inc., and the St. Amant Centre (a component of the Winnipeg Regional Health Authority). All of these crown organizations were consolidated in the 2005/06 Summary Financial Statements. However, because the financial statements of the thirty-eight public school divisions were not prepared in accordance with Canadian generally accepted accounting principles (GAAP), they were not consolidated in the Summary Financial Statements for the year ended March 31, 2006.

The Government through its Summary Financial Reporting Project has developed a plan which will require public school divisions to prepare GAAP financial statements commencing with their fiscal year ending June 30, 2007 and will also require them to provide the necessary financial information to enable the Government to fully consolidate the financial position and operating results of public school divisions in the Summary Financial Statements for the 2007/08 fiscal year. Public school divisions are presently gathering the financial information needed to prepare financial statements in accordance with GAAP (using public sector accounting standards) for their 2006/07 fiscal year. We discuss these issues further in this Report in a section titled, "Consolidating Public School Divisions".

The new Government Reporting Model PSAB standard states that the GRE should be defined based solely on control, not on accountability and ownership and/or control which were the bases of the former standard. Control is defined by PSAB as follows:

> *"the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities … a government may choose not to exercise its power; nevertheless, control exists by virtue of the government's ability to do so. Control must exist at the financial statement date, without the need to amend legislation or agreements."*

The existence of control can be viewed as working along a continuum. At one end of the continuum, it is clear that the entity does not have the power to act independently and is controlled by the government. At the other end, the entity has the power to act independently and while the government may influence the entity, it is evident that the government does not control the entity. For entities falling between the two ends of the continuum, PSAB has offered guidance as to what indicators of control might be considered in evaluating whether control exists.

PSAB has provided a listing of the more persuasive indicators of control as well as suggested other indicators that could be used to evaluate whether control exists. PSAB's more persuasive indicators are:

- *"government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization;*
- *government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses;*
- *government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization; and*
- *government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations".*

Other indicators recommended by PSAB for consideration are:

- *"provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members;*
- *appoint or remove the CEO or other key personnel;*

- *establish or amend the mission or mandate of the organization;*
- *approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis;*
- *establish borrowing or investment limits or restrict the organization's investments;*
- *restrict the revenue-generating capacity of the organization, notably the sources of revenue; and*
- *establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources".*

However, in order to determine whether control exists, each indicator would be evaluated in the circumstances and the degree of government influence would determine how important the indicator is in terms of providing evidence of control. The weight given to an indicator also depends on the circumstances. For example, an entity's compliance with regulatory authority does not, in and of itself, constitute control if the government's interest in the entity only extends to the regulated aspects of its operations.

Another example is that financial dependence of an organization also does not constitute control, in and of itself. The governing body of the entity could be independent with respect to establishing its financial and operating policies. The government may require reporting from the entity to demonstrate compliance with the terms and conditions of the funding provided and if that is the extent of the government's interest in the organization, it does not constitute control. The organization retains the right to decide whether it accepts the government funding and the conditions attached to that funding.

As a result, indicators should be considered collectively as well as individually such that it is the sum of all the evidence that should lead to a conclusion as to whether the government controls an entity.

This new standard is, in many respects, more inclusive than the former standard as it looks at the fundamentals of the relationship between the government and the organization. Under the former standard, the entity could be excluded if the government did not have the power to appoint the majority of the governing body. The Government's evaluation, in consultation with the OAG, determined that public school divisions, the University of Winnipeg, Collège universitaire de Saint-Boniface, the First Nations and Metis Child and Family Services Authorities (the proportionate share of operations for children in care within the Province's jurisdiction), Sport Manitoba Inc., Tire Stewardship Board and St. Amant Centre (a component of the Winnipeg Regional Health Authority should be added to the existing Government Reporting Entity.

Notwithstanding that the Government does not appoint the majority of the governing boards of these entities or in the case of school divisions does not appoint any school trustees, the Government does control these entities through other means. For instance, school divisions are included in the Government's Reporting Entity because of the control exerted by the Government through the Department of Education and Public Schools Finance Board in such areas as the budgeting process, accounting and financial reporting practices, capital plans, curricula and ability to borrow for capital purposes.

Similarly, the University of Winnipeg, and Collège universitaire de Saint-Boniface are controlled by the Government through the powers of the Council on Post-Secondary Education regarding operating and capital budgets, changing policies for tuition fees charged, capital financing as well as the requirement for approval of any new program of study or changes to a program delivered at the institution, if funded by the Province. The Child and Family Services Authorities are considered controlled by the Government because the Province will be responsible for the Authorities' operating losses, the Province must approve their operating plans and capital budgeting and the Authorities have restricted alternate revenue generating capacity.

SIGNIFICANT ACCOUNTING AND DISCLOSURE IMPROVEMENTS IN THE 2005/06 PUBLIC ACCOUNTS

Recognition of Environmental Liabilities

The Province adopted a new accounting policy this year for the recognition and measurement of its environmental liabilities. The accounting policy provides for the phased-in recognition (up to and including the 2008/09 fiscal year) of the Province's environmental liabilities resulting from contamination which occurred on or before March 31, 2005 and for which the Province is obligated or likely to be obligated to remediate. The obligation to remediate a site is in order to protect public health and safety, meet the terms of contractual agreements or comply with environmental standards in federal, provincial or municipal legislation. The recognition of these liabilities which existed as at March 31, 2005 will result in a charge to the accumulated deficit until March 31, 2009; the charge recorded in the 2005/06 fiscal year was $142 million. In accordance with the new accounting policy, the Province will perform site assessments of all the contaminated sites in order to properly quantify the liabilities using recognized methodology. The liabilities are measured according to the direct incremental costs to be incurred less any estimated third party recoveries and discounted where possible to reflect the time value of money. The environmental liabilities resulting from contamination which occurred after March 31, 2005 will be recorded as an expense in the current year.

Disclosure of Risk Management and the Use of Derivative Financial Instruments

This year the Province included note disclosure of the Province's risk management process involving the use of derivative financial instruments. Derivatives are used to address (hedge) interest rate risk and the risks associated with foreign currency fluctuations of foreign currency denominated debt. The Province uses primarily forward (foreign currency) contracts and interest rate and cross currency swaps to manage these risks. The Province disclosed the notional value of all its derivative contracts which totaled $27 billion, as well as the gross and net credit risk exposure (that counterparties with whom the Province has entered into derivative contracts will default on their obligations). For the year ended March 31, 2006, the Province had no credit risk exposure to its counterparties but had a net liability of $703 million owing to them. The note disclosure also reflected the impact of a one percent increase in interest rates on debt servicing costs which was estimated to result in an increase in debt servicing costs of $13.5 million.

Previous Recommendations Implemented

Figure 10 summarizes the implementation of OAG recommendations made in the last five years.

FIGURE 10

Recommendations Implemented Over the Past Five Years

Year First Recommended	Recommendation	Year Recommendation Implemented
1997	That the Government prepare a Summary Budget in accordance with accounting principles used for the Summary Financial Statements and to include all the activities of government in this budget.	2002 (partially)
1999	That the Province identify critical standard SAP reports and communicate the importance of their use to departments either through an enhanced Manager's Desktop or other processes.	2003
2002	That the Government create a Pension Assets Fund in the Special Purpose Financial Statements to reflect designated assets set aside for the future retirement of the Government's unfunded pension liability.	2003
2002	That the Department of Finance take the additional action necessary to completely address the foreign exchange clearing account misstatements and in addition adjust the Canadian dollar translation of the balances of the US dollar bank accounts to the year end exchange rate in accordance with PSAB standards, rather than average exchange rate currently used.	2004
2002	That the Government set a firm target date for the completion of its information gathering and the establishment of appropriate accounting policies for the recognition of the major infrastructure systems in the Summary Financial Statements.	2004
2001	That unaudited 4th quarter reports not be issued.	2005
2002	That the Government eliminate all the present exceptions from GAAP for the fiscal year ended March 31, 2005 and formally commit to the full adoption of GAAP for the fiscal year ended March 31, 2006.	2005
2002	That in accordance with public sector accounting standards, pension asset composition detail should be disclosed in the notes to the Summary Financial Statements. The assets should be shown on the balance sheet by their classification, for example, portfolio investments rather than as pension assets on the balance sheet.	2005
2004	That the Government discontinue the practice of recording interest recoveries on all capital grants provided and report public debt expense net of interest recoveries from government business enterprises on the Statement of Revenue and Expense for both the Special Purpose and Summary Financial Statements. In addition, that the Government separately disclose the gross amount of public debt expense and report revenue from other loans receivable and investments as revenue and not net those revenues against the amount reported as public debt expense.	2005 (partially)

Previous Recommendations Not Yet Implemented

Figure 11 is a summary of OAG recommendations not yet implemented by the Department of Finance and/or the Government of Manitoba.

FIGURE 11

Recommendations Not Yet Implemented

Year of Recommendation	Recommendation
1999 (Updated in 2006)	That Manager's Desktop be expanded to encompass all managers, additional functionality be provided, the use of it encouraged and that management tasks be removed from administrative staff as soon as possible and moved back to departmental managers where they appropriately belong. In addition, we continue to recommend the Government set a target date for the implementation of this recommendation once the assessments are completed on the above initiatives and the reports released.
(Recommendation #6)	That managers be given purchasing approval rights in SAP in accordance with Department Delegation of Financial Signing Authority Charts.
(Recommendation #7)	That the system of Department Delegation of Financial Signing Authority Charts, including specimen signature cards, be reviewed for improving, possibly through automation, the maintenance and availability of the documentation.
1999 (Updated in 2006)	That the Comptroller's Office, through a monitoring of the Departments' accountability, ensure that all departments' delegated authorities are properly represented in SAP or that differences from these delegated authorities are approved and documented.
(Recommendation #8)	That the Comptroller's Office monitors the purchasing approval rights of users in SAP to ensure that such rights are not excessive and comply with the requirements of the Financial Administration Manual.
1999 (Updated in 2006)	That the Comptroller's Office, through a monitoring of departmental accountability, ensure that departments review the incompatible functions on a regular basis and that departments maintain documentation on compensating controls should incompatibilities exist. The role matrix should be updated, reconcile to incompatibilities noted on MICT's intranet site and should document why a combination of functions/roles is incompatible so that departments can understand why they are incompatible and better able them to document the required compensating controls.
(Recommendation #9)	That the Comptroller's Office in collaboration with the Office of the CIO review the use of security software tools to better manage the risks involving users with incompatible duties.
1999 (Updated in 2006)	That a well thought out and effective Business Continuity Plan, one component being disaster recovery having been completed, be developed, documented and tested regularly to minimize the risk of disruptions caused by unforeseen events.
(Recommendation #10)	That the Comptroller's Office in collaboration with the Office of the CIO ensure that business impact analyses be conducted on a coordinated basis by Departments to help develop suitable plans to recover computer processing capabilities in response to adverse events that disrupt computer processing services or facilities.
(Recommendation #11)	That the business impact analyses be used on a coordinated basis to develop suitable plans to continue critical business functions in response to adverse events that disrupt business operations.
(Recommendation #12)	That disaster recovery and business continuity plans be documented and tested to ensure their effectiveness.
2001 (Updated in 2005)	That the Government make the Summary Budget its primary tool for explaining its financial plans to the citizens of Manitoba. This would be consistent with the decision to make the Summary Financial Statements its primary financial reporting tool. In essence, this would mean framing the annual budget documents around the Summary Budget, with the Operating Fund budget being shown in a subsidiary context to demonstrate how the government plans to comply with the Balanced Budget Legislation and to highlight those expenditures that will require legislative approval.
(Recommendation #1)	That the Government continue to report progress toward its commitment to implement summary budgeting by 2007/08 to the Members of the Legislative Assembly and the public on a regular basis.
2001 (Updated in 2005) (Recommendation #2)	That the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with the generally accepted accounting principles framework as soon after the full implementation of summary budgeting in 2007/08 as practicable.
2002 (Updated in 2005 and 2006)	That Internal Audit and Consulting Services revisit their role and expand their work on an annual basis to systematically, according to a documented plan, review and test SAP controls in the departments and consider providing assurance as to the effectiveness of internals controls within the provincial government.
(Recommendation #5)	That Internal Auditing and Consulting Services revisit their role and expand their work on an annual basis to test controls over financial reporting, including computer application controls in SAP and other significant information systems. Where practical, expand the work to include general computer controls.

FIGURE 11 (CONT'D.)

Recommendations Not Yet Implemented

Year of Recommendation	Recommendation
2003 (Recommendation #3)	That the Government consider introducing amendments to the Financial Administration Act to eliminate the requirement for separate Consolidated Fund (Operating Fund) financial statements.
2003 (Recommendation #4)	That consideration be given to amending the Balanced Budget Legislation to refer to the Summary Financial Statements prepared in accordance with GAAP.
2004 (Recommendation #13)	That the Government develop suitable, generally accepted criteria to be used in determining an amount of emergency expenditures to be excluded under Section 3(2) of the Balanced Budget, Debt Repayment, and Taxpayer Accountability Act or under the amended legislation and communicate these criteria to the Members of the Legislative Assembly.
2004 (Recommendation #14)	That the Government develop a plan to discharge its remaining obligations for vacation and severance pay to the various government organizations involved. That the Government also clearly communicate to these organizations, the portion of the annual funding provided by the Province, if any, that relates to the increase in vacation and severance pay liabilities.
2004 (Recommendation #16)	That the Province of Manitoba continue to reshape its Annual Report into a document that more closely reflects PSAB's Statement of Recommended Practice on Financial Statement Discussion and Analysis and PSAB's Statement of Recommended Practice on Public Performance Reporting.
2006 (Recommendation #15)	That the Government develop a plan to discharge its loans from and funding commitments to government organizations for pension liabilities.
2006 (Recommendation #17)	That the Province of Manitoba further assist departments to improve performance measurement and reporting through guidance based on the CICA Statement of Recommended Practice on Public Performance Reporting.

SUMMARY BUDGET

Over the past five years, we have noted that, in response to our recommendations, the Government has prepared an annual summary budget based on the budgets for all entities included in the Government Reporting Entity and that this budget was presented each year in the Manitoba Budget Address. The most recent budget presented in 2006 is, however, still not presented with the appropriate level of detail needed to compare with the results in the Summary Financial Statements.

In our view, the Summary Financial Statements and therefore, the Summary Budget are the Government's foremost accountability documents. The benefits for the preparation of a detailed summary budget are many. One need only view Schedules 8 and 10 of the Summary Financial Statements to become aware of the number of entities that compose the Government Reporting Entity and the fact that considerable financial activity within the Government Reporting Entity is outside of the Operating Fund. Without a detailed summary budget, the Legislative Assembly is not given the necessary depth of financial information upon which to fully discuss the planned use of public funds. As well, it is the comparison of the Summary Financial Statements' actual results with that detailed summary budget which permits a thorough analysis of the Province's financial position and operating results compared with planned results, and provides the ability to measure the Government's management of public resources.

Canada and five of the other Provinces produce summary budgets that are tabled in Parliament/Legislatures. The governments of Canada, British Columbia, Alberta, Ontario, Quebec and New Brunswick have already made the summary budget their primary budget. These summary budgets are prepared on the same basis as the Summary Financial Statements of those governments. Three of these six summary budgets are voted on by the members of the Parliament/Legislatures. Manitoba is still not aligned with these jurisdictions in this regard.

However, the Government has committed to preparing a full summary budget for the 2007/08 fiscal year. This summary budget will also incorporate the budgets of the all the crown organizations included in the new Government Reporting Entity. We recommended last year that the Government publicly report on its progress toward that commitment. To this end, we note that the Government has released the Report on the Summary Financial Reporting Project, prepared by a consultant, which documents the implementation plan as to how the Government will obtain from crown organizations the additional information necessary to prepare a full summary budget for the 2007/08 fiscal year.

Recommendation 1

First recommended in the 2001 Report to the Legislative Assembly. (Updated in 2005.)

That the Government continue to report progress toward its commitment to implement summary budgeting by 2007/08 to the Members of the Legislative Assembly and the public on a regular basis.

Quarterly Reporting

We believe that the quarterly financial report should be prepared using the same accounting principles as the Summary Financial Statements, as these provide the most complete and accurate indication of the Province's fiscal position. Our recommendation on quarterly reporting reflects the high priority issue of encouraging the Government to adopt the GAAP Framework in its quarterly reports.

The Government has committed to prepare quarterly reports on a summary basis as soon as is practicable after the 2007/08 fiscal year. To that end, this year, as mentioned previously, the Government has released the Report on the Summary Financial Reporting Project (Report) which states that a staging plan has been developed which would result in quarterly financial reporting on a Summary GAAP basis commencing in the third quarter of the 2009/10 fiscal year. The Report also indicates that in the interim, the Government anticipates that its quarterly reports will increasingly reflect additional elements of GAAP and incorporate information from more of the crown organizations in the Reporting Entity. As well, systems and processes will be developed to gather the necessary information, which in the 2008 and 2009 fiscal years will be used for internal financial reporting purposes.

Last year, the Government discontinued the release of a 4th quarter report.

Recommendation 2

First recommended in the 2001 Report to the Legislative Assembly.

That the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with the generally accepted accounting principles framework as soon after the full implementation of summary budgeting in 2007/08 as practicable.

FINANCIAL REPORTING

Planned Full Adoption of GAAP

2005/06 Summary Financial Statements are not Complete GAAP Financial Statements

Five jurisdictions, Nova Scotia, Ontario, Saskatchewan, Alberta and British Columbia prepare the Public Accounts in accordance with GAAP for senior governments. For the year ended March 31, 2006, Manitoba prepared its Summary Financial Statements in accordance with GAAP except for the non-consolidation of public school divisions. (The new Government Reporting Entity recognized in the 2005/06 fiscal year will incorporate all public school divisions in Manitoba for the year ending March 31, 2008.)

In the preparation of the Estimates of Expenditures and Revenues and the Budget Address, the Province uses the provisions of *The Financial Administration Act* (Act) as the basis for financial accounting and reporting considerations. According to this Act, Treasury Board is responsible under Section 5(a) for preparing the estimates and similarly, under Section 5(f), for ensuring accountability of government departments to the Legislature for the delivery of government programs.

Under Section 8 of the Act, the Minister of Finance is responsible for the management and administration of the Department of Finance; the management and administration of the Consolidated Fund; the management of public debt; and the control and direction of all matters relating to the financial management of the government that are not assigned to Treasury Board. In addition, Section 9 of this Act states that the Minister of Finance may make regulations and issue directives regarding accounting policies and practices.

Section 65(1) of the Act requires that the Comptroller shall prepare the Public Accounts including the financial statements of the Consolidated Fund in accordance with the accounting policies of the Government. However, it does not state that the accounting policies of the Government must be in accordance with Canadian Public Sector Accounting Standards for senior governments as recommended by Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The Act does not, however, prohibit the use of Public Sector Accounting Standards for Senior Governments as the basis for financial reporting in the preparation of the Public Accounts, Estimates and Quarterly Reports.

In contrast, the Province of British Columbia has entrenched in legislation the use of Public Sector Accounting Standards for senior governments as recommended by PSAB, in its *Budget Transparency and Accountability Act*. This Act creates an accounting policy advisory committee to advise Treasury Board as to the implementation of GAAP for the government reporting entity. Treasury Board is to establish the accounting policies used for preparation of the Main Estimates and the Public Accounts. Treasury Board is also to establish the accounting policies used for the preparation of Quarterly Reports. It is implied that these accounting policies should be GAAP unless otherwise disclosed.

British Columbia's *Budget Transparency and Accountability Act*, also incorporates that wherever public sector accounting standards for senior governments are not used, either in the Estimates or the Public Accounts, there must be disclosure of any material variances of those policies from GAAP. In addition, with regard to Quarterly Reports, if there is a change in the accounting policies of the Government Reporting Entity which would affect, by a prescribed dollar amount, the forecasted deficit or surplus for the current and next three years, then there must be a public report of it.

While the Manitoba Government has not introduced legislation to entrench the requirement to prepare significant public financial reports, in accordance with Canadian Public Sector Accounting Standards for Senior Governments as recommended by the PSAB of the Canadian Institute of Chartered Accountants, it plans to consolidate public school divisions in the 2007/08 Summary Financial Statements and in that fiscal year prepare full GAAP financial statements.

THE ELIMINATION OF SPECIAL PURPOSE FINANCIAL STATEMENTS

Balanced Budget Legislation - What Is It?

Balanced Budget Legislation, enacted in the fall of 1995 with amendments in 2000, is a prescribed set of rules incorporated in legislation, in *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* (Act) (see **Appendix F**). Those rules (with variations from GAAP) are used to determine if the Government of the day has generated a positive balance in the Operating Fund for a fiscal year, meaning generating more revenue than a defined subset of the expenses incurred and factoring in transfers from the Fiscal Stabilization Fund and to the Debt Retirement Fund. According to the Act, the Government is not to incur a negative balance in the Operating Fund. The main rules are as follows:

- An excess of revenue over expenses is determined according to the accounting policies of the Government as disclosed in the audited Special Purpose (Operating Fund) Financial Statements. If there is a reservation in the Auditor's Report to the financial statements resulting from a change in accounting policies not authorized in the Act, then the financial statements must be restated to ensure that the financial effects of that change did not result in a positive balance which would have otherwise, under the former accounting policy(ies), have resulted in a negative balance. If a change in accounting policies did result in a change from a negative to a positive balance, then the government will not have achieved a balanced budget.
- The existing accounting policies are disclosed as Canadian generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants with certain exceptions. One notable exception is the failure to record in the Operating Fund the liability related to the unfunded pension obligations. As a result, the change in the unfunded pension liability is not reflected in the determination of a positive or a negative balance.
- The Act permits a once a year interfund transfer, a transfer into the Operating Fund, from the Fiscal Stabilization Fund, often referred to as the "Rainy Day Fund", of an amount up to the maximum of the balance of the Fiscal Stabilization Fund. That transfer-in is also included in the determination of the balance according to balanced budget legislation.

- The Act also prescribes that as a target, an amount equal to 5% of the year's expenses in the Consolidated (Operating) Fund or any greater amount that the Minister (of Finance) considers appropriate is to be transferred to the Fiscal Stabilization Fund. Only a positive balance may be transferred back to the Fiscal Stabilization Fund for use in future years. The transfer out is not included in the determination of a positive or negative balance according to balanced budget legislation.
- Any transfers out of the Debt Retirement Fund to the Operating Fund for the repayment of the outstanding debt and pension obligations are not included in the determination of a positive or negative balance according to balanced budget legislation.
- A calculated amount, (determined to be $110 million for the year ended March 31, 2006) shall be transferred annually, from the Operating Fund to the Debt Retirement Fund to provide for the future retirement of the outstanding debt and pension obligations. That transfer out, an interfund transfer, is also to be reflected in the determination of a positive or negative balance according to balanced budget legislation.
- The above interfund transfers as noted are included for purposes of determining if there is a positive balance in the Operating Fund, according to balanced budget legislation. However, interfund transfers are not included in the determination of an excess of revenue over expenses according to generally accepted accounting principles. Interfund transfers are not sources of revenue and can be used to designate and/or restrict the use of certain assets for a specified purpose such as the future retirement of the outstanding debt or pension obligations.
- If there is a negative balance in a fiscal year then there must be an offsetting positive balance in the next fiscal year unless there is a general election and the party forming the Government has changed. Then if, in the year of a general election, the party forming the Government has changed and there is a negative basis, the new Government is not required to have an offsetting positive balance in the following year.
- There are financial penalties to the members of the Executive Council for failing to meet the requirements of the Act.
- The Act does not apply in the case of war or a natural disaster that affects the Province which could not be anticipated or if there is greater than a 5% reduction in revenue in the fiscal year, providing the reduction did not result from a change in Manitoba taxation laws. The proceeds from the sale of a Crown Corporation are not to be included in the determination of a positive balance.

For the first time since the legislation was passed, in 2003/04, the Government invoked Section 3(2) of the Act to exclude the expenses related to a natural disaster that affects the Province which could not be anticipated, in the Government's determination of a positive balance under the Act. A further discussion of this matter appears later in this section of the Report.

Fiscal Stabilization Fund - What Is It?

The Fiscal Stabilization Fund (Fund) was established under the authority of *The Fiscal Stabilization Fund Act* (Act) (see **Appendix G**), which was enacted in 1989 and was amended in 2000. The purpose of the Fund as set out in the Act is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning. The Fund is often referred to as the "Rainy Day Fund".

In 1989, in its first year of existence, the Government of the day transferred $200 million from the Operating Fund into the Fund. That transfer created a $142 million deficit in the Operating Fund where there would otherwise have been $58 million surplus for the year ended March 31, 1989. At the time, we qualified our audit opinion on the $58 million surplus. Since then there have been other sizable transfers into the Fund including the net proceeds from the sale of the Crown Corporation, Manitoba Telephone System, as well as from the greater than budgeted federal transfers, including multi-year transfers that were paid out in lump sum.

Legislative amendments were made to the Act in 2000. Consequently, the Government can no longer deposit in the fund any revenue or other financial assets received by the Government in a fiscal year ending after March 31, 2000 as a result of selling shares or assets of a Crown corporation in the course of a privatization of the Crown Corporation and the Government can only transfer positive balances (from the Operating Fund) - the transfer cannot create an annual deficit in the Operating Fund.

The primary activities of the Fund are interfund transfers. The transfers are either transfers out to the Operating Fund or transfers of any part of a positive balance into the Fund from the Operating Fund. The Fiscal Stabilization Fund also earns income on the investment of the assets of the Fund, which is retained in the Fund until transferred out.

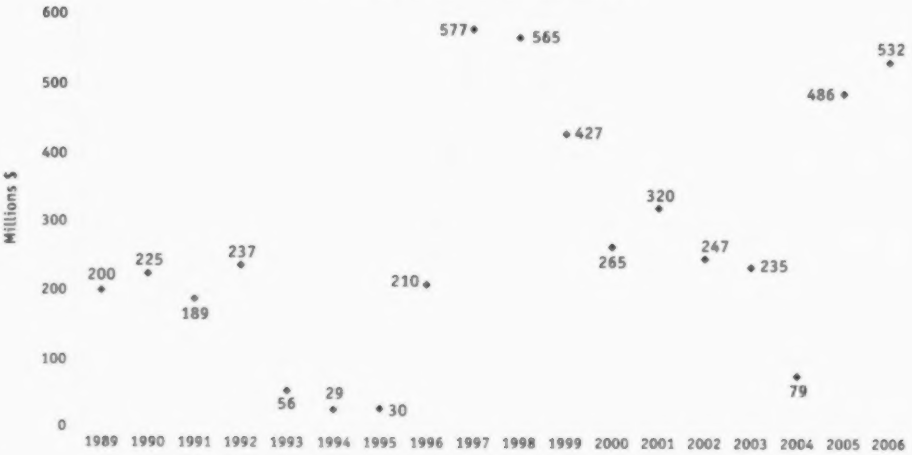
With regard to transfers into the Fund, the Government may deposit in the Fund, any part of revenue or other financial assets received in the Operating Fund in any fiscal year. Furthermore, the target level for the Fund is a minimum of 5% of the annual expenses of the Consolidated (Operating) Fund.

The Government may transfer out of the Fund, all or part of the Fund balance to the Operating Fund, but the Government may only make one transfer out each fiscal year.

This Fund is used to create a positive balance in the Operating Fund in an amount chosen each year by the Government.

FIGURE 12

Fiscal Stabilization Fund Closing Fund Balances
For Years Ending March 31



Conclusion

The Financial Administration Act section 65(1)(a) requires the preparation of financial statements of the Consolidated Fund. It also requires that the Auditor General report on his or her examination of these financial statements. The Consolidated Fund of the Public Accounts is more commonly known as the Operating Fund and its financial position and annual operations are included in the Special Purpose Operating Fund and Special Funds Financial Statements.

The Special Purpose Financial Statements are prepared primarily in order to reflect compliance with the Balanced Budget, Debt Repayment and Taxpayer Accountability Act (Balanced Budget Legislation).

Only Saskatchewan, Prince Edward Island and Manitoba, include audited Special Purpose Financial Statements or General (Operating Fund) Financial Statements in their Public Accounts.

However, as we have noted elsewhere in this report, the Special Purpose Financial Statements are not appropriate for assessing the government's fiscal performance. In essence, therefore, it is illogical to have balanced budget legislation refer to an inappropriate set of financial statements. It would be more appropriate to have the balanced budget legislation refer to the Summary Financial Statements prepared in accordance with GAAP.

In keeping with the appropriateness of emphasizing the Summary Financial Statements, we continue to believe that the Government should reflect any key information from the Special Purpose Financial Statements in the Summary Financial Statements (in the notes to the financial statements). We also believe that the Summary Financial Statements/ Summary Budget should combine budget information from the Operating Fund (Estimates of Expenditure and Revenues) with detailed budget information from Crown organizations. The Government would, therefore, eliminate the need for the preparation of the Special Purpose Financial Statements and reduce the risk of confusion caused by having two sets of financial statements publicly presented each year.

This year, the Province reviewed issues related to amending Balanced Budget Legislation in the context of the Government's commitment to Summary Financial Reporting in accordance with GAAP. The Government released a consultant's report entitled "Modernizing Manitoba's Financial Accountability Legislation" which provided twelve recommendations for consideration in revamping the present Balanced Budget Legislation. The second recommendation referred to entrenching in legislation the use of public sector accounting standards (PSAB GAAP) as the basis of accounting for financial reporting. The fifth recommendation referred to the use of financial information from the Summary Financial Statements in the determination of compliance with Balanced Budget Legislation. The Report also stated that the *"principal implication of the move to summary reporting is that the Operating and Special Funds will no longer exist as a discreet, separately measurable (or presented) component of government within the annual general purpose financial statements"*.

Recommendation 3

First recommended in the 2003 Report to the Legislative Assembly.

That the Government continue with its commitment to introduce amendments to the Financial Administration Act to eliminate the requirement for separate Consolidated Fund (Operating Fund) Financial Statements.

Recommendation 4

First recommended in the 2003 Report to the Legislative Assembly.

That consideration be given to amending the Balanced Budget Legislation to refer to the Summary Financial Statements prepared in accordance with GAAP.

ROLE OF INTERNAL AUDIT AND CONSULTING SERVICES

In general, Internal Audit and Consulting Services are not currently involved in activities such as the following:

- Identifying, documenting, and testing the relevant application controls for systems significant to financial reporting, such as the SAP system; and
- Identifying, assessing, and regularly testing relevant general computer controls.

Many CEOs and CFOs, in both the public and private sector, look to their internal audit function for assistance evaluating the effectiveness of controls and procedures related to financial reporting. Internal audit can play an important role in evaluating and testing the overall effectiveness of financial reporting controls and procedures, as well as reporting their findings and conclusions to management and the external auditor.

The Internal Audit and Consulting Services (IACS) Branch of the Department of Finance provides internal audit and consulting services to management throughout government. All government departments have access to internal audit services through requesting work/assistance that IACS may then incorporate into their annual plans for what is assessed as high priority matters.

IACS was also initially involved in the implementation of SAP through participation in the Process and Systems Integrity Team which was responsible for providing expert advice, guidance and integration of all aspects of internal control and system security for the SAP project.

SAP was first implemented seven years ago and is an extremely complex system. IACS should play a significant and active role in providing assurance as to the effectiveness of controls at the departmental level. Ongoing involvement would give IACS the opportunity to add confidence in the reliability and accuracy of this importance government-wide system on a continuous basis.

Moreover, an effective internal audit function enhances the control environment of the entity. The United States (US) passed legislation, *The Sarbanes-Oxley Act*, to address concerns created by Enron and other financial disasters. Those new US standards apply to publicly traded companies. One of the US requirements being implemented is that public companies must make representations regarding the effectiveness of their internal controls over financial reporting among others.

In Canada, management of publicly traded companies will also be required to make representations on the effectiveness of the organization's internal controls over financial reporting. While the regulations of provincial securities commissions requiring reporting on the effectiveness of a company's internal controls over financial reporting only apply to public [publicly traded] companies, we believe that the public expectation that governments provide these same representations will likely follow. As well, the Federal Government, in response to the sponsorship scandal, is expanding the internal audit function throughout government in order to provide additional assurance on the adequacy of internal controls within departments affecting financial management and financial reporting.

As a result, we continue to believe that the internal audit function of the Province should plan for the expansion of testing of internal controls to enable Provincial senior administrators to make representations on the effectiveness of their internal control systems. The Province's government-wide information system is SAP and would be a primary focus for internal control testing. In past years, we recommended that IACS take a lead role on an annual basis in the review and testing of SAP controls at the departmental level and thus have a more significant role in providing assurance as to the effectiveness of controls at the departmental level as they relate to SAP. This year, we understand that the IACS is revisiting their strategic direction which would include focusing a greater effort on the internal audit function. We further understand IACS will begin to undertake testing SAP controls in the Departments in the near future.

In addition, as we noted in the past three years, the revised Comptrollership Framework was distributed in October 2003 and made reference to an audit function in monitoring compliance with the authority delegated by the Comptroller to the Departments. That delegated authority includes ensuring effective internal control systems among other responsibilities. There have been further delays in the completion of the Comptrollership Plans by some of the Departments and IACS has not been involved with that audit function in the 2006 fiscal year. However, we understand that recently, the Comptroller's Office allocated staff resources to begin a review of the Departmental Comptrollership Plans.

First recommended in the 2002 Report to the Legislative Assembly. (Updated in 2005 and 2006)

Recommendation 5

That Internal Auditing and Consulting Services revisit their role and expand their work on an annual basis to test controls over financial reporting, including computer application controls in SAP and other significant information systems. Where practical, expand the work to include general computer controls.

INFORMATION SYSTEMS

The Province of Manitoba (Province) has various information systems of major and minor significance both centrally and in the departments. Information systems are integral to the administration of Province and successful management of their programs. Identification and review of these information systems are critical. The components of a good information system include proper design, sufficient documentation, identification and use of internal controls as well as the ongoing monitoring of results as intended. Change is inherent within all information systems and therefore change management is also important.

As part of our financial statement audit methodology, we gain an understanding of controls relevant to financial reporting. This understanding includes controls over business processes that are significant to financial reporting. They are called application controls. Some application controls are manual activities performed by people.

Business processes are generally automated and referred to as information systems. As the processes are automated, the application controls tend to be automated, that is the controls are built into the computer logic or programs. For example, a computer program automatically assigns sequential numbers to invoices. Therefore, proper functioning of these computer programs is important to financial reporting.

The computer programs operate in a computer environment. A well-controlled computer environment provides assurance that the computer programs are functioning properly. The components of control over the computer environment are called general computer controls.

The general computer controls relate to the following:

- Computer management control environment;
- Computer operations;
- Acquisition and development of information systems;
- Changes to information systems;
- Logical access to programs and data; and
- Physical computer environment.

Our approach is to assess the general controls for the computer environments supporting information systems significant to financial reporting. Some general computer controls, such as management practices and security policies, are common across the various computer environments.

Other general computer controls are specific to a computer environment, such as the configuration of system software that enables the controlled functioning of computers on which automated information systems reside. This system software includes the particular computer operating system and database management system software that support an information system.

Our approach also includes assessing application controls, both automated and manual. We review the business process activities to determine the controls to be assessed for the audit.

Some of the more significant information systems within the Province include SAP, GenTax, Treasury Manager, Social Allowance Management Information Network, public health systems such as Pharmacare, medical and hospital information systems, in addition to numerous departmental revenue systems.

One of the most critical information systems in place for the Province is the SAP System which is used by all government departments, special operating agencies and certain crown organizations. Our Office has commented previously on various SAP internal control issues since it was implemented on April 1, 1999.

SAP

The Province uses SAP as an enterprise solution for its accounting, logistics and human resource processes. SAP is a fully integrated computerized accounting and management information system and functions across multiple departments, agencies, commissions and sites throughout Manitoba. SAP allows for the sharing of common data, so transactions initiated by one business area may have a direct impact on other business areas. The broad and detailed functionality that gives the system its flexibility often results in complex control and security requirements.

Our office identified that the complexity of the controls and security requirements of SAP creates a new set of challenges to be addressed, as we need to rely on SAP in the audit of Public Accounts. To this end, we performed a review of the controls over SAP in the initial implementation of SAP version 3.1h, and we issued a report on the results of our review. A summary of this report was included in the March 31, 1999 Public Accounts Report to the Legislature.

The Province upgraded from SAP version 3.1h to version 4.6b in November 2000. We reviewed the upgrade to determine if there were any changes due to the upgrade that would affect our reliance on the controls over SAP in our audit of the Public Accounts. A summary of this report was included in the March 31, 2001 Public Accounts Report to the Legislature.

For both the initial SAP implementation as well as the 4.6b upgrade there were three areas which we considered the most critical and were reported on previously. Our recommendation regarding the use of critical standard reports was addressed in 2003 and now two areas remain. In our 2001 Report to the Legislature we also stated that we would provide reports to the departments detailing our recommendations based on a review of the 4.6b upgrade. We have issued separate reports to the departments and our follow-up on the implementation of those recommendations has indicated that there was still further action that needed to be taken by the departments in this regard. As we have reported in prior years, we will continue to address the key outstanding issues with the Comptroller's Office to ensure that the appropriate action is taken.

The two remaining areas of recommendations made in prior years are:

1. Access Rights to SAP

There were three recommendations regarding access rights to SAP as follows:

- We had recommended that departmental managers be provided with access to SAP and that the management tasks be removed from administrative staff as soon as possible. During 2001/02 there was an initiative for providing targeted access to SAP through the Manager's Desktop (MDT) program. Manager's Desktop provides managers with immediate access to a defined subset of management reports for human resources and financial information. While approximately 350 managers attended Manager's Desktop training and went "live" on SAP in 2001/02, we understand there have been only marginal increases in its use by managers since then. While MDT continues to be rolled out, it is still not mandatory that managers access it. Increasing MDT's use as well as expanding its functionality should continue to be explored.
- Since the implementation of SAP, our concern is that some managers do not have rights in SAP to approve purchases, in particular the right to release purchase orders, even though they have been delegated such authority by Ministers of the Government.
- About 200 individuals have SAP user profiles that include the manager role (M1) with its Manager's Desktop functions. Over half of these individuals do not have purchasing approval rights, which are the rights in SAP to release purchase orders or to certify the receipt of goods and services. We reviewed the official delegated authority for a number of these individuals without purchasing approval rights in SAP. Generally, the individuals that we reviewed were unable to provide documentation regarding delegated purchasing approval authority per the Department Delegation of Financial Signing Authority Charts.

Recommendation 6

First recommended in the 1999 Report to the Legislative Assembly. (Updated in 2006)

That managers be given purchasing approval rights in SAP in accordance with Department Delegation of Financial Signing Authority Charts.

Recommendation 7

First recommended in the 1999 Report to the Legislative Assembly. (Updated in 2006)

That the system of Department Delegation of Financial Signing Authority Charts, including specimen signature cards, be reviewed for improving, possibly through automation, the maintenance and availability of the documentation.

- We previously recommended that the Comptroller's Office reinforce the importance to departments of ensuring the delegated authorities are properly represented in SAP or that differences from the delegated authority levels to the levels set in SAP have been approved and documented. During 2002/03, an SAP report was developed to assist departments to assess the SAP authority levels, and to ensure compatibility and comparability. Distribution of the report to departments occurred at the December 2002 Council of Executive Finance Officers (CEFO) meeting. In accordance with the Comptrollership Framework, it is the responsibility of each individual department, rather than a central function, to review delegated authorities and have the appropriate documentation.

There are over 150 positions across government with the right in SAP to approve purchases at the highest delegation level of Treasury Board, specifically purchases of $300,000 and over. At least 18 of these positions are clerical. Also, dozens of positions with the delegation level of $40,000 to $50,000 are clerical. We reviewed the official delegated authority for a number of the clerical positions. None of the positions or individuals that we reviewed have delegated authority per the Department Delegation of Financial Signing Authority Charts. We found examples of positions or individuals that have significantly less delegated authority per the Department Delegation of Financial Signing Authority Charts or than the rights set in SAP. In some cases, the positions have no delegated authority.

The Financial Administration Manual prohibits financial signing authorities, conferred by a Minister to organizational positions or individuals, from being re-delegated to subordinate employees, except as expressly approved by the Minister. The opportunity unnecessarily exists for personnel in such positions to incorrectly or fraudulently approve a transaction and not be detected on a timely basis. Managers reviewing paper lists of transactions processed in SAP will not prevent and might not detect incorrect or fraudulent transactions.

Automated systems such as SAP allow centralized monitoring of rights in SAP, such as purchasing approval rights, as well as the organizational positions of personnel.

Recommendation 8

That the Comptroller's Office monitors the purchasing approval rights of users in SAP to ensure that such rights are not excessive and comply with the requirements of the Financial Administration Manual.

First recommended in the 1999 Report to the Legislative Assembly. (Updated in 2006)

- We previously recommended that ICT Services Manitoba, formerly Manitoba Information and Communication Technology (MICT), prepare for each department a list of personnel with rights in SAP to perform incompatible duties. Each department should be provided with their specific list for review and approval. This process should be updated on a regular basis to ensure that departments are aware of staff members with incompatible duties and that departments have controls to compensate for the increased exposure to risk.

During 2002/03 an SAP report was developed which assisted departments in identifying personnel with rights to perform incompatible duties. It was first distributed to Departmental Executive Finance Officers in June 2002 for their review. We understand that in accordance with the Comptrollership Framework, it is the responsibility of each department to ensure that the existence of any incompatible duties and the compensating controls are identified and documented. However, the departmental Comptrollership plans which are the mechanism for reporting to the Comptroller's Office have not all been completed.

There are users with incompatible duties. For example, four individuals can approve payments (F4 role) and make the payment (F8 role). Also, there are about 250 individuals who can certify that goods and services have been received (F7 role) can commit funds and enter into agreements (F4 role). Both sets of incompatible duties are regarded as high financial risk situations.

An emerging trend is the use of a software security tool to reduce the burden of managing incompatible functions in SAP. Such a tool can have the following benefits:

- identify segregation of duty issues before granting access
- reduce security administration
- provide a common platform for business, security and audit functions regarding segregation of duties
- enable mitigating controls, including monitoring and follow-up

Recommendation 9

First recommended in the 1999 Report to the Legislative Assembly. (Updated in 2006)

That the Comptroller's Office in collaboration with the Office of th CIO review the use of security software tools to better manage the risks involving users with incompatible duties.

2. Disaster Recovery/Business Continuity Plans

The Province has significant information systems for which it lacks plans to maintain or recover computer processing services in response to adverse events that disrupt computer processing services or facilities (disaster recovery plans). In particular, the SAMIN system is not covered under the Disaster Recovery Utility (DRUT) option with the mainframe computer service provider, even though this option is used for some other systems in government.

For the Taxation system, a test environment is available as a second site; however, the system has not been fully tested. To date, there have only been informal discussions with the service provider and software vendor on available options.

The computer servers for the SAP system are divided between two buildings with a communication link that allows a copy of the SAP database to be updated at the secondary computer centre every few hours. Several hours of data can be lost if the primary servers become unavailable. This level of disaster recovery might not meet business needs.

The government programs supported by the SAMIN and Taxation systems lack plans to carry on critical business functions in response to adverse events or disruptions to business operations (business continuity plans). Also, there is no current documented and tested business continuity plan regarding operations supporting the SAP system.

As well, there are no business impact analyses that assess the risks and acceptable recovery periods related to these government programs and the operation of the SAP system.

We previously recommended that a comprehensive business continuity plan be put in place by the Province covering the SAP application. Without a centrally coordinated effort, limited resources may not be expended in the most effective and economical manner for the government as a whole. Without appropriate business impact analyses, it is difficult to adequately assess the effectiveness of plans.

Recommendation 10

That the Comptroller's Office in collaboration with the Office of the CIO ensure that business impact analyses be conducted on a coordinated basis by Departments to help develop suitable plans to recover computer processing capabilities in response to adverse events that disrupt computer processing services or facilities.

First recommended in the 1999 Report to the Legislative Assembly. (Updated in 2006)

Recommendation 11

That the business impact analyses be used on a coordinated basis to develop suitable plans to continue critical business functions in response to adverse events that disrupt business operations.

First recommended in the 1999 Report to the Legislative Assembly. (Updated in 2006)

Recommendation 12

That disaster recovery and business continuity plans be documented and tested to ensure their effectiveness.

First recommended in the 1999 Report to the Legislative Assembly. (Updated in 2006)

INVOKING SECTION 3(2) FOR EMERGENCY EXPENSES

For the first time in the 2003/04 fiscal year, the Government invoked Section 3(2) of *The Balanced Budget, Debt Repayment, and Taxpayer Accountability Act* (Act) to exclude emergency expenses in determining whether there was a positive or negative balance. The Government did not invoke Section 3(2) of the Act during the 2004/05 or the 2005/06 fiscal year. However, our concerns regarding of the invocation of Section 3(2) of the Act remain.

Although we reported in 2003/04 that the Government did comply with Section 3(2) of the Act, we also placed a scope limitation in the 2003/04 Auditor's Report on the Special Purpose (Operating Fund) Financial Statements because we could not express an opinion on the amount of the emergency expenses excluded. We found that there was an absence of suitable, generally accepted criteria for use in determining an amount for emergency expenditures as called for by the Act. As a result, the amount, although declared in accordance with the provisions of the Act, is not susceptible to audit verification and no opinion was expressed on the amount of the emergency expenditures.

Representatives of the Department of Finance and Treasury Board Secretariat provided us with the following documented rationale for the use of Section 3(2):

> ***"Balanced Budget Legislation (BBL) Disaster Exemption Background for 2003/04 Public Accounts***
>
> - *Section 3(2) of The Balanced Budget, Debt Repayment and Taxpayer Accountability Act states that, 'The government is not required to include*

the following in determining whether there is a positive or negative balance for a fiscal year:

- a) *an expenditure required in the fiscal year as a result of a natural or other disaster in Manitoba that could not have been anticipated and affects the province or a region of the province in a manner that is of urgent public concern;*
- b) *an expenditure required in the fiscal year because Canada is at war or under apprehension of war;*
- c) *a reduction in revenue of 5% or more in the fiscal year, other than a reduction resulting from a change in Manitoba's tax laws'.*

- *While this clause has existed since the inception of BBL, it has not been used to declare any expenditure as disaster-related and not included in the determination of the balance.*
- *Certainly as to the amount to be excluded under Section 3(2) may be provided by way of a declaration of the Lieutenant Governor in Council under Section 3(3) of the BBL, which states, 'A declaration by the Lieutenant Governor in Council that, in the opinion of the Lieutenant Governor in Council, an expenditure or reduction of revenue as described in subsection (2) has occurred is conclusive for the purposes of this Act of the fact that the expenditure or reduction occurred and in that amount'. This declaration can only be made after the amounts are known.*
- *Key criteria for invoking the clause in 2003/04 are the magnitude of the emergency, the availability of other sources of revenue, and the remaining balance of the Fiscal Stabilization Fund (FSF). As indicated in the following Figure 13, the available FSF balance was the lowest since the inception of the BBL in terms of the total balance and as a percent of total expenditure. Revenue also declined from budget in 2003/04.*

FIGURE 13

Fiscal Stabilization Fund - Remaining Balance

Year	($ Millions)			
	Emergency Expenditures Variance from Budget	Total Revenue Variance from Budget	FSF Balance at Close of Year	FSF Balance as % of Total Expenditure
1995/96	26.1	158.2	210.4	3.8
1996/97	11.6	440.5	577.5	10.7
1997/98	197.5	330.1*	565.0	9.9
1998/99	(39.4)	(27.1)*	427.3	7.3
1999/00	112.7	440.3*	264.8	4.1
2000/01	4.4	337.8	320.5	4.8
2001/02	17.9	(56.6)	247.3	3.7
2002/03	14.4	80.0	235.5	3.4
2003/04 Prel. Actual	71.1	(8.3)	118.0	1.6

* Includes Disaster Financial Assistance flood related revenue of $168.2 million in 1997/98, $26.8 million in 1998/99, and $19.1 million in 1999/00 related to the 1997 flood.

- *The criteria of revenue availability and FSF capacity were applied to ensure that flexibility existed in the Operating Fund for future years. The FSF capacity as at March 31, 2004 is currently at $118 million on a preliminary actual basis, or 1.6% versus the fund balance target established in BBL of 5% of total 2004/05 expenditure.*
- *Legal opinion on the expenditures that could be declared indicated that, to the extent that Emergency Expenditures exceed the $25,000,000 provided for in the Main Estimates, they could be excluded in determining the balance for the year under the BBL."*

In **Figure 13** above, provided by the Government, the Emergency Expenditures Variance from Budget column shows actual expenses but the third party recoveries are included in the Total Revenue Variance from Budget column for the 2003/04 year, but not for the years 1997/98 to 1999/00. **Figure 14** shows what **Figure 13** would look like if third party recoverables were listed consistently.

FIGURE 14

Fiscal Stabilization Fund - Remaining Balance

Year	($ Millions)			
	Emergency Expenditures Variance from Budget	Total Revenue Variance from Budget	FSF Balance at Close of Year	FSF Balance as % of Total Expenditure
1995/96	26.1	158.2	210.4	3.8
1996/97	11.6	440.5	577.5	10.7
1997/98	29.3	161.9	565.0	9.9
1998/99	(66.2)	(53.9)	427.3	7.3
1999/00	93.6	421.2	264.8	4.1
2000/01	4.4	337.8	320.5	4.8
2001/02	17.9	(56.6)	247.3	3.7
2002/03	14.4	80.0	235.5	3.4
2003/04 Prel. Actual	71.1	(8.3)	118.0	1.6

The $71 million in emergency expenses excluded under Section 3(2) of the Act was, as noted above, net of the budgeted amount of $25 million provided in the 2003/04 Estimates (of Expenditures). The $71 million emergency expenses were also net of approximately $2 million in third party recoveries from the Federal Government.

The two largest categories of costs included emergency expenses related to the bovine spongiform encephalopathy (BSE) crisis and forest fire suppression activity. The BSE crisis costs were $42 million which incorporated $9 million for a provision for bad debts for the BSE Recovery Loan Program and $33 million for a shared cost program to support producers affected. As well, there was $52 million spent on forest fire suppression activities.

The other categories included were spring flood costs of approximately $1 million and a further $1 million for various departmental emergency expenses.

Analysis

We reviewed the justification for this transaction before concluding that the amount of the excluded emergency expenses was not susceptible to audit verification because of a lack suitable lack of generally accepted criteria to be used in determining the amount.

In our view, appropriate criteria for determining the amount of emergency expenses would not include the amount available to be drawn from the Fiscal Stabilization Fund or the availability of other sources of revenue.

However, the criterion of the magnitude of the costs related to emergency expenses is relevant as the Government must manage unforeseen circumstances on an ongoing basis. Similarly, there is the issue of the amount budgeted as a baseline over which any additional expenses would be considered of a sufficient magnitude to be excluded.

Another criterion to consider is the appropriateness of the amount budgeted for contingencies. In 2003/04 the government budgeted $25 million (0.3% of budgeted expenses) for contingencies. On this basis, Section 3(2) was invoked for all emergency expenses over $25 million. However, one could argue that $25 million is a very tiny contingency in a $7.3 billion budget. A larger contingency would result in Section 3(2) being invoked only for significant events.

In addition, we found that over the five year period ending in 2003/04, the highest costs incurred for forest fire suppression activities alone, net of recoveries and adjusted for inflation, were $25 million ($26.2 million in 1999/00 with recoveries of $2.9 million, both in nominal dollars).

We believe that the criteria could also consider the historical trends of expenses incurred and be used to establish a range, outside of which, the emergency expenses would be considered eligible for exclusion under Section 3(2) of the Act. Similarly, the Government might also establish criteria for what constitutes a natural or other disaster in Manitoba that could not have been anticipated and affects the province or a region of the province in a manner that is of urgent public concern.

In summary, we believe that the criteria used to determine the emergency expenses excluded under Section 3(2) of the Act for purposes of determining whether there is a balanced budget should be clearly defined and communicated to the Legislative Assembly.

This year, as noted earlier in this report, the Government released a consultant's report entitled "Modernizing Manitoba's Financial Accountability Legislation" which included twelve recommendations with respect to amending the present Balanced Budget Legislation (BBL). The fifth recommendation included to a reference to a principal that the "measure [of compliance with BBL] should provide some flexibility to provide the Government with an opportunity to respond to extraordinary circumstances".

Recommendation 13

First recommended in the 2004 Report to the Legislative Assembly.

That the Government develop suitable, generally accepted criteria to be used in determining an amount of emergency expenditures to be excluded under Section 3(2) of the Balanced Budget, Debt Repayment, and Taxpayer Accountability Act or under the amended legislation and communicate these criteria to the Members of the Legislative Assembly.

CROWN ORGANIZATIONS AND GOVERNMENT BUSINESS ENTERPRISES

Who Conducts the Audits

The Auditor General's Office audits many of the crown organizations and one of the government business enterprises included in the Government Reporting Entity and the others are audited by private sector auditors appointed by the Government. Consequently, we place reliance on the audit work and opinions of the private sector auditors in forming the audit opinion on the Summary Financial Statements. As discussed below *The Auditor General Act* also provides us with specific authority over Government appointed auditors of crown organizations. We obtain written representations from the private sector auditors regarding their independence and compliance with generally accepted auditing standards. We also perform additional auditing procedures, as we consider necessary, to fulfill our broader reporting responsibilities to the Legislative Assembly.

Appendix E lists those government entities audited by the Auditor General's Office and those audited by private sector auditors.

Relationship with Private Sector Auditors

THE AUDITOR GENERAL ACT

The Auditor General, as the auditor of the Public Accounts of the Government of the Province of Manitoba, reports on whether the Government's Summary Financial Statements are fairly presented in accordance with public sector accounting standards for senior governments.

As many of the financial statements of government entities included in the Government Reporting Entity are audited by private sector auditors, the Auditor General must also be able to rely on the work of these external auditors. *The Auditor General Act* (Act) clarified the Auditor General's authority over the external auditors and the responsibilities of the external auditors to the Auditor General as auditors of government entities. Section 13 of the Act authorizes the Auditor General to rely on the report of an external auditor of a government entity in order to fulfill the Auditor General's responsibilities as the auditor of the government accounts. Professional auditing standards, namely Section 6930 of the CICA Assurance Handbook, permit reliance on the work of another auditor provided that the Auditor General is satisfied that the audit conducted has been properly planned, executed, completed and reported.

In addition, as we reported previously, the Act was proclaimed in early May 2002, and since then we have expanded our role in the financial statement audits of government entities audited by the private sector auditors. Our expanded role has encompassed a review of the planning, execution and completion stages of the audits performed by these auditors.

Excerpts from the Act are provided below:

Planning

The Auditor General may require the external auditor of government entities to provide the Auditor General with a description of the proposed scope of the audit before the audit is begun. The Auditor General may then require changes to be made in the scope of the audit. **[Section 12(1) of the Act]**

Execution

Before an external auditor issues an audit opinion on the financial statements of a government entity, the Auditor General may require the external auditor conduct additional examinations relating to the financial statements. **[Section 12(2)(b) of the Act]**

Completion

Before an external auditor issues an audit opinion on the financial statements of a government entity, the Auditor General may require the external auditor to provide the Auditor General with a copy of the proposed audit opinion, the draft financial statements, and any recommendations arising out of the audit of the financial statements. **[Section 12(2)(a) of the Act]**

The Auditor General may require an external auditor to give the Auditor General a copy of the audit working papers. **[Section 12(3) of the Act]**

Reporting

As soon as an audit is completed, an external auditor must give the Auditor General a copy of the audit opinion on the financial statements of a government organization and any recommendations arising out of the audit of the financial statements. **[Section 12(4) of the Act]**

Report to the Legislative Assembly

The Auditor General has the authority to report to the Legislative Assembly on any matter he or she may wish to draw attention to and make recommendations regarding any audit conducted by an external auditor under Section 12. **[Section 10(3) of the Act]**

RELIANCE ON THE WORK OF PRIVATE SECTOR AUDITORS

In the 2002/03 audit cycle, we met with the Chief Executive Officers and the Chief Financial Officers of crown organizations included in the Government Reporting Entity, as well as representatives from the private sector audit firms conducting the financial statement audits of these entities. At these meetings we clarified the role our Office would be taking in these audits, and set out our specific expectations regarding required correspondence, communications and time lines.

For year ended March 31, 2006, the Office of the Auditor General continued to issue letters to the external auditors requiring them to comply with Sections 12(1), 12(2) and 12(4) of the Act. Specifically, the external auditors were to provide to our Office, draft audit plans before the commencement of the audit field work and draft audit opinions and financial statements prior to finalizing the audit. The auditors were also directed to provide signed audit opinions and management letters.

Review of Draft Planning Memoranda, Financial Statements and Auditors' Reports

We received 70 draft planning memoranda from private sector auditors, which we reviewed and made recommendations for changes on one of these audit plans.

Similarly, we also received and reviewed 70 draft financial statements and auditors' reports. We provided recommendations on 62 of the draft financial statements. We had no recommendations on 8 of the draft financial statements.

Of the 62 draft financial statements on which we made recommendations, 47 draft financial statements were amended in 2006. With respect to the other 15 draft financial statements, some of the changes we recommended were deferred until next year.

The recommended changes included presentation and disclosure matters in the financial statements and in the notes to the financial statements.

In accordance with our annual and cyclical review schedule, we reviewed 24 of the external auditors' working paper files including the audit working paper files for all of the large government business enterprises.

We continued to communicate with the external auditors at each stage of the overview.

As a result of our reliance process regarding crown organizations' financial statement audits, we continued our involvement with the audit processes of crowns including attendance at Board and Audit Committee meetings. Through our review of the draft financial statements of crown organizations prior to finalization, we also continued to contribute to improved public sector financial reporting. Our impact on their financial statements included clearer and expanded note disclosure and improved asset and liability classification and description.

Furthermore, in the case of our overview work with respect to Special Operating Agencies' financial statement audits, we provided assistance which improved the overall disclosure and consistency of presentation among these organizations. As well, that work also contributed to the improved consistency of the financial reporting of the Special Operating Agencies Financing Authority.

Management Letter Issues

We have reviewed and summarized the management letters issued by auditors of organizations within the Government Reporting Entity. These audits were conducted by us or by private sector accounting firms with overviews of these external audits performed by us.

Management Letters deal with matters that come to the attention of an auditor during the course of a financial statement audit. The matters communicated do not necessarily include all those matters which a more extensive or special examination might uncover. The objective of a financial statement audit is to express an opinion on the financial statements of an entity based on the audit procedures performed. A financial statement audit is not designed to identify matters to communicate and may not identify all such matters. Management is responsible for the preparation of the financial statements, which includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting error and fraud.

We reviewed the communications from the auditors of the 87 organizations in the Government Reporting Entity (see **Figure 15**). There were 44 Management Letters issued. Management Letters were not issued for 43 entities. For these entities, it was the auditors' opinion that no significant items came to their attention during the course of the financial statement audit that should be brought to the attention of management, and/or their Board/Audit Committee.

FIGURE 15

Summary of Management Letters Issued in the Government Reporting Entity

	Crown Organizations	Government Business Enterprises	Special Operating Agencies	Total
Management Letter Issued	32	4	8	44
No Management Letter Issued	31	4	8	43
Total	63	8	16	87

Among the 44 Management Letters that were issued, OAG noted three major themes as highlighted in **Figure 16**:

FIGURE 16

Summary of Matters Noted in 44 Management Letters Issued in the Government Reporting Entity

	Crown Organizations	Government Business Enterprises	Special Operating Agencies	Total
Internal Controls	76	10	12	98
Governance	16	5	2	23
Information Technology	47	9	2	58
Total	139	24	16	179

1. Internal Controls Weaknesses

There were 98 instances of internal controls weaknesses reported. Internal controls assist with safeguarding of assets and are designed to prevent and/or detect errors or irregularities. The internal control weaknesses identified involved the revenues, expenses, capital assets and payroll functions within the entities. Some of the items noted were:

- Poor controls over financial reporting;
- Insufficient approval of payroll transactions;
- Unreconciled accounts;
- Improper segregation of duties; and
- Inadequate review and approval of transactions.

2. Governance

There were 23 instances of governance weaknesses reported. Governance practices relate to how a governing body, most often the Board of Directors, leads and oversees an organization. Some of the items noted were:

- Lack of approved minutes from Board of Director and Audit Committee meetings;
- Inadequate and untimely financial information provided to the Board;
- Insufficient procedures and policies to monitor compliance with Legislated Acts;
- Lack of review of budget to actual comparison of revenues and expenses; and
- Lack of review and approval of financial statements.

3. Information Technology

There were 58 instances of information technology (IT) weaknesses reported. IT policies and procedures are important as they help prevent unauthorized access to sensitive information and play a vital role in ongoing government operations. Some of the items noted were:

- Poor computer system access controls;
- Poor computer password controls;
- No computer usage policy in place;
- Inadequate segregation of duties in the IT Department; and
- Outdated and untested disaster recovery plans.

During 2006/07, we will follow up the recommendations made in the Management Letters to determine and report on the status of implementation of the recommendations. Also, we will request that the external auditors provide formal feedback on the status of any recommendations they made in the 2005/06 Management Letters.

Detailed Assessments of General Computer Controls

For two of the financial statement audits conducted by the OAG, we provided management with a detailed report of general computer controls. The detailed reports documented our understanding of general computer controls implemented at the organization. These reports provided the opportunity for management to learn about the criteria against which the organization was being assessed and to confirm the validity of our understanding. Also, the reports included various internal control risks and recommendations for improvement that are generally reflected in the preceding discussion of management letters.

Regional Health Authorities

The Regional Health Authorities (RHAs) have third party long term debt (debt owed to private sector financial institutions) which was incurred to finance capital projects and is being repaid with funding from the Province of Manitoba. In substance, under public sector accounting standards, that debt is considered the debt of the Province. We reported last year the Province recognized that third party debt as borrowings of the

Province in the Special Purpose Financial Statements. This year, the Province continued to recognize any new third party debt which will be repaid with provincial funding as the Province's debt. However, since the RHAs have also reflected in their financial statements this long term debt as their debt, the RHAs were directed by Manitoba Health to reflect this third party debt as deferred contributions in the their financial statements for the year ended March 31, 2006. In accordance with not-for-profit accounting standards, applying the deferral method, this funding, in substance, represents capital grants from the Province and should be reflected as deferred contributions.

All the RHAs have restated third party long term debt as deferred contributions in their financial statements for the year ended March 31, 2006. However, a number of components of the Winnipeg Regional Health Authority would not adopt this accounting treatment. We believe that it is confusing for those organizations to report debt on their financial statements, which has been recognized as borrowings of the Province in the Special Purpose Financial Statements. We are encouraging those organizations to restate such debt as deferred contributions in their financial statements in accordance with the substance of the transactions.

Receivables from the Province of Manitoba for Severance and Vacation Pay Liabilities

Over the past two years we have reported that the Province of Manitoba instructed various crown organizations (organizations) several years ago to accrue their vacation and severance pay liabilities in accordance with Canadian generally accepted accounting principles (GAAP). At that time, the Province acknowledged that it would be an unfair burden on the organizations to expect them to recognize these liabilities without financial assistance from the Province. As a result, the Province recognized in the Special Purpose (Operating Fund) Financial Statements, a liability to the organizations for vacation and severance pay entitlements incurred up to the time of the directive.

Last year, the Province recognized in the Special Purpose (Operating Fund) Financial Statements, the remaining liability of $234 million for employee future benefits (severance and vacation benefits) owed to health care facilities (Regional Health Authorities and their component health care facilities) and child and family services agencies as at March 31, 2004. These liabilities represent an estimate (using an actuarial valuation) of the benefits that will be paid at a future date by the respective organizations. However, under GAAP, the cost of the benefits is recognized as an expense in the fiscal year the entitlement to the benefits is earned.

Similarly, when these liabilities were recognized by the Province, the organizations also set up offsetting receivables from the Province for these amounts. The liabilities to the organizations of approximately $269 million for severance and vacation pay entitlements set up by the Province are listed in **Appendix H**. The Province's liabilities to the organizations and the organizations' receivables from the Province are eliminated when their financial statements and the Operating Fund Financial Statements are consolidated into the Summary Financial Statements.

Although the Province has recorded these liabilities, there are no specified terms of repayment and these financial instruments are non-interest bearing. The new Financial

Instruments section of the CICA Handbook, effective for the year ending March 31, 2008 (fiscal years beginning on or after October 1, 2006), requires that related party receivables be accounted for, in terms of their subsequent measurement, at amortized cost using the effective interest method. These accounting standards apply to not-for-profit organizations as well as profit orientated organizations. This change in the accounting standards is meant to better reflect the time value of money. As a result, these receivables will be subject to significant write-downs in their valuation if the non-specified terms of repayment and non-interest bearing status remain unchanged.

The write-downs will be accounted for as a current year's expense for the year ending March 31, 2008 and will likely result in annual deficits and accumulated deficits in the Regional Health Authorities' and other organizations' financial statements.

In addition, without a plan from the Province to discharge these liabilities, the crown organizations must also consider the cash flow issue regarding collection of these long-term receivables. Many of the organizations are starting to pay out large severance benefits as staff retire. The organizations have to provide the cash payments from within the organization's resources. We understand that the Province has no plans at present to fund the payment of the balance of these amounts, unless the respective organizations experience an overall cash shortfall. This shortfall would be likely to occur only if the organization(s) ceased operations.

Recommendation 14

That the Government develop a plan to discharge its obligations for vacation and severance pay to the various government organizations involved. That the Government also clearly communicate to these organizations, the portion of the annual funding provided by the Province, if any, that relates to the increase in vacation and severance pay liabilities.

First recommended in the 2004 Report to the Legislative Assembly.

Receivables from the Province of Manitoba for Pension Liabilities

Certain organizations within the Government Reporting Entity including the Manitoba Liquor Control Commission (MLCC) have recognized loans or quasi-loans receivable from the Province related to pension liabilities. In the 2004 fiscal year, we reported that the Province recognized the loan payable to MLCC of $45 million to reflect the overstatement of net profits earned up to the end of the 2003 fiscal year. Because MLCC pays all of its net profits to the Operating Fund, the Province should have recognized a liability to MLCC as at March 31, 2000 for the overstatement of net profits resulting from MLCC's unrecorded pension liability. As a government business enterprise, MLCC is self-sustaining and is responsible for all of its operating costs including its pension costs. Similarly, between the 2001 and 2003 fiscal years MLCC had overstated its net profits by recording a receivable from the Province equal to the increase in its pension liabilities; this corresponding liability was also not recorded in the Operating Fund.

Since 2004, MLCC has ceased recording an increase in the loan receivable from the Province to offset in the increase its pension liability, effectively restricting the increase in the receivable due from the Province. However, there have been no terms of repayment established for the $45 million loan receivable and the loan is non-interest bearing. As mentioned in the preceding section, under the new accounting standards for financial instruments in effect for the 2007/08 fiscal year, the subsequent (the fiscal year following its initial recognition and each fiscal year thereafter) measurement of the loan receivable should be at amortized cost using the effective interest method. If there are no terms of repayment and it is non-interest bearing, MLCC's loan receivable will be subject to a significant write-down in the valuation of the loan which will be recorded as a current year's expense.

Similarly, in a number of other crown organizations, such as Manitoba Agricultural Services Corporation (the former Manitoba Agricultural Credit Corporation component) and Legal Aid Manitoba, long-term provincial funding commitments of $6 million and $10 million, respectively, regarding pension obligations have been recorded. The receivables recorded by the respective crown organizations for pension entitlements of approximately $46 million are listed in **Appendix I.** No liability has been recorded in the Operating Fund for these obligations. In 2007/08, these quasi-loans receivable will also be accounted for (valued) at amortized cost using the effective interest method and any write-downs will be recorded as a current year's expense and will likely result in annual deficits and accumulated deficits in a number of their financial statements.

Recommendation 15

2006 Recommendation

That the Government develop a plan to discharge its loans from and funding commitments to government organizations for pension liabilities.

CONSOLIDATING PUBLIC SCHOOL DIVISIONS

Consolidating Public School Divisions

In June 2005, the Government announced its commitment to prepare summary budgets (incorporating the entire Government Reporting Entity (GRE)) and financial reports in accordance with public sector accounting standards (PSAB) by 2007/08. That commitment includes the consolidation of public school division financial statements into the Summary Financial Statements. (Public school divisions were added to the GRE effective April 1, 2005.) The conversion to PSAB by the school divisions is currently underway and is expected to be completed in time for the preparation of their financial statements for the year ending June 30, 2007. The full implementation of PSAB by the school divisions for the year ending June 30, 2007 will allow for a smoother transition for their consolidation into the Government's Summary Financial Statements for the year ending March 31, 2008.

Under *The Public Schools Act*, school divisions in Manitoba are required to follow accepted accounting policies for school divisions. Accepted accounting principles are outlined in the *Financial Reporting and Accounting in Manitoba Education Manual* (FRAME) and were developed by the Department of Education, Citizenship and Youth through the Schools Finance Branch (SFB).

FRAME provides a standardized accounting and reporting system for school divisions in Manitoba. FRAME is based on Generally Accepted Accounting Principles (GAAP) with two major exceptions:

- there is no amortization recorded on capital assets; and
- many school generated funds are not being recorded in the financial statements.

In June 2005, the PSAB Committee (Committee) was established. The Committee's role is to facilitate the transition of the school divisions from FRAME accounting to PSAB. The composition of the Committee is comprised of six school division secretary-treasurers, two school division external auditors, plus representatives from the SFB, the Provincial Comptroller's Office, the Manitoba Association of School Trustees and the Office of the Auditor General (OAG).

ACCOUNTING ISSUES RELATED TO THE CONVERSION TO PSAB

1. Tangible Capital Assets

The first accounting issue undertaken by the school divisions was the identification, costing, and valuation of their tangible capital assets. Tangible capital assets are non-financial assets that are used by the school divisions to provide services to the public and have an economic life beyond one fiscal year, and are not for sale in the ordinary course of operations. Tangible capital assets at school divisions include land, buildings, buses, other vehicles, equipment, furniture, computers and software.

Under FRAME, tangible capital assets are recorded in the capital fund. The FRAME Manual establishes a threshold of $20,000 for the recognition of tangible capital assets. Amounts below this threshold are recorded as an expense in the operating fund. The Committee developed accounting policies on tangible capital assets for the school divisions. Asset classes, useful lives, amortization methods, and capitalization thresholds were established.

Buildings, and related betterments, will be the most significant class of tangible capital assets on the financial statements of most school divisions. The actual cost of the building will be used in all cases where it is known or readily available. The replacement cost of the buildings as at June 30, 2005 is used in cases where the actual cost cannot be established. SFB has developed a methodology, using Southam and CanaData construction cost indices, which regresses the replacement cost to the construction date of the school. As of fall 2006, most of the school divisions should have completed the costing of their buildings. All land will be valued by Land Management Services. The valuation of the land should be completed by March 2007. The identification and costing for all other asset classes should have been completed by October 2006.

2. School Generated Funds

The other major accounting issue addressed by the Committee was the accounting treatment for school generated funds. School generated funds are moneys raised by the schools through fund raising campaigns, user fees, parent action groups, cafeterias, and the leasing of school property. The funds are normally administered by the principal of the school, and may or may not be used for the purposes of the school. Not all revenues, expenses and balances related to school generated funds are currently being recorded in FRAME.

There was significant discussion in the Committee about the requirement and usefulness of recording school funds. Many school division administrators have expressed the opinion that school funds should not be included in the financial statements of school divisions. School funds are not received from the Province; therefore school divisions are not accountable to the Province for the funds. They also view the administrative cost required to account for school funds as significant as it is time consuming and therefore expensive.

Financial statement objectives in PSAB provide the basis for determining generally accepted accounting standards. Generally accepted accounting standards enhance the reliability and comparability of financial statements. The first objective of financial statements for senior governments is to provide an accounting of all the financial resources and activities it controls. School divisions can only achieve this objective by reporting the full nature and extent of the financial resources they control, including school funds.

The Committee developed an accounting policy on school generated funds that is in accordance with PSAB. The school fund accounting policy is based on who has control of the fund. If the school principal has control of the fund, and therefore the school division, then the revenues and expenses related to the fund should be accounted for and included in the school division's financial statements. Control is defined by who decides how, when and on what the funds are to be spent. A principal having custody over the fund, or being the signing authority over the bank account, would not be considered to control the fund, unless the principal has discretion on how the funds are to be spent.

3. Transitional Accounting Policy for School Generated Funds

The Committee arrived at the conclusion that most school divisions would not be able to account for all their school funds, in accordance with the policy, in time to complete their June 30, 2007 and 2008 year ends. It is not uncommon for a single school to have over a hundred school funds in its custody. The school divisions will not have sufficient lead time to establish who has control for all of their funds.

In consultation with school division Secretary Treasurers, the Committee approved an accounting policy to define control. Under this policy, Parent Council, Student Council and Travel Club Funds are not considered controlled by school divisions. All other school funds may be deemed "controlled" for accounting purposes, however, school divisions may also perform their own assessment to determine control using the following guidance provided by the Committee. Under the alternative accounting policy, school divisions only need to establish control for a representative sample of their school funds. Exceptionally large school funds will be excluded from the sample. These large funds, above a predetermined threshold, will be separately evaluated in accordance with the accounting policy on school funds. The percentage of funds that are determined to be controlled by the school will be extrapolated over the entire population of school funds for the division exclusive of the exceptionally large funds. The special provisions for large funds reduce the risk that the sample will not be representative of the remaining population of school funds.

4. Employee Future Benefits

The Committee has been reviewing the issue of the financial reporting of employee future benefits (EFB) by school divisions. EFB are retirement benefits, compensated absences, and post employment benefits, which an employee earns in the current period, but will be paid out in future periods. Examples of EFB are pension benefits, disability income plan benefits, severance, and vested sick leave.

The preliminary opinion of the Committee is that EFB are already being properly recorded by the school divisions. Under *The Teachers' Pensions Act*, the Province is charged with the responsibility of paying the employers' share of pensions paid and certain other payments. No decision has been made regarding financial statement disclosure of this arrangement.

Other employees, such as administrative staff, maintenance workers, and bus drivers participate in defined contribution retirement plans. Under a defined contribution plan, the liability of the school division is limited to the required periodic payments specified under the plan and, generally, is paid each fiscal year. The school division is not required to make any future contributions for current services in respect of the plan. Dental and health plans and disability income plans are covered by private insurers. The school divisions are only responsible for the cost of the premiums. There are also school divisions that have vested sick leave and severance packages for administrative staff, maintenance workers, and bus drivers. The school divisions currently appear to be properly accruing these benefits.

There is one school division with four separate defined benefit retirement plans. Senior management at the school division is aware that an actuarial valuation of each plan is required. It is currently not known whether the accrual of a pension liability for any of these plans will be required.

5. School Division Debentures

In the 2003/04 fiscal year, the Government recognized $456 million in capital grants to school divisions which were financed through the issuance of school division debentures. These debentures, although issued in the names of the respective school divisions, were being repaid with funding from the Province. These debentures were purchased by the Province and Manitoba Public Insurance Corporation as investments. Under public sector accounting standards, this debt is, in substance, the debt of the Province and the impact of these transactions, capital grants financed through borrowings or investments, was reflected in the 2003/04 Special Purpose and Summary Financial Statements. Since 2003/04 any new school division debentures issued have been accounted for as capital grants and borrowings in the public accounts.

However, the school divisions have also been reflecting these same debentures as debt on their financial statements. We believe it is confusing to the public to report the same debt on two sets of financial statements, the Summary and School Division Financial Statements. This issue is presently under discussion and is expected to be resolved in the 2006/07 fiscal year.

AUDITING ISSUE

The Province of Manitoba has a March 31st fiscal year end while the school divisions have a June 30th year end. The Committee decided to maintain the June 30th fiscal year end mainly because it coincides with the academic year. Changing to a March 31st year end would also create resource difficulties for the school divisions and their external auditors.

The Province's Steering Committee on Summary Budgeting and Reporting Project adopted guiding principles for the preparation of the annual financial statements. One principle dealt with entities which have non March 31st year ends. Entities in the Government Reporting Entity that do not have March 31st year ends will be required to provide audit level assurance financial information for the year ending March 31st. The requirement to provide financial information for the year ending March 31st is the responsibility of the respective entity.

The consolidation of 38 school divisions, with June 30th year ends, represents a material addition to the Summary Financial Statements of the Government of the Province of Manitoba. As the auditors of the Government's Summary Financial Statements, we will require assurance on the reliability of the financial information prepared by the school divisions. Specified audit procedures were designed by the OAG in cooperation with the Committee. The specified audit procedures will be performed by the school divisions' external auditors. We expect to rely on the work of the external auditors for assurance on the reliability of that financial information.

The external auditors will report to us on the results of applying the specified procedures on the financial information for the year ending March 31, 2008 under *CICA Handbook*, Section 9100. The report on applying specified audit procedures provides an alternative to the cost of preparing and auditing two sets of financial statements (based on March 31st and June 30th year ends). The specified procedures will be performed in accordance with Generally Accepted Auditing Standards; however, they do not constitute the level of work required to form an audit opinion and no opinion will issued. The report will state the procedures performed and the results of those procedures.

The school division financial information that will be examined by the external auditors will be the same financial information that will be required by the Comptroller's Office. The Comptroller's Office will use the financial information to consolidate the financial position and annual results of public school divisions into the Summary Financial Statements. We will review the reports from the external auditors and we will also verify the consolidation prepared by the Comptroller's Office.

PUBLIC PERFORMANCE REPORTING

Review of the "Province of Manitoba Annual Report for the Year Ended March 31, 2006" in Relation to Recommended Practices in Performance Reporting

INTRODUCTION

In our report to the Legislature last year on the Audit of the Public Accounts for the year ended March 31, 2005, we continued to recommend the following:

> **That the Province of Manitoba reshape its Annual Report into a document that more closely reflects the recommendations of PSAB's Financial Statement Discussion and Analysis and CCAF's Performance Reporting Principles.**

First recommended in the 2004 Report to the Legislative Assembly.

We reviewed the 2006 Annual Report to determine how much progress has been made in implementing this recommendation. Our work was conducted pursuant to the Auditor General's mandate under clause 14(1)(c) of *The Auditor General Act* which authorizes the examination of whether the Legislative Assembly has been provided with appropriate accountability information. We relied on guidance developed by the Canadian Institute of Chartered Accountants (CICA) to undertake the review of the *Province of Manitoba Annual Report for the Year Ended March 31, 2006*. The guidance from CICA is explained below followed by our conclusions and further recommendations.

GUIDANCE FROM THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

Financial Statement Discussion and Analysis

To encourage governments to effectively report only the most relevant information, the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB) has developed a Statement of Recommended Practice in regard to the annual reports of the federal, provincial, territorial and local governments. The Statement of Recommended Practice is intended to provide guidance for the development of the Financial Statement Discussion and Analysis (FSD&A). Although not part of the financial statements, FSD&A is information that would accompany the financial statements. A financial statement does not explain why something did or did not happen, or what may happen in the future as a result of long-term trends. Thus, the FSD&A provides narrative information and graphic illustrations highlighting the key relationships that exist among the quantitative representations set out in the financial statements, as well as explanations and illustrations of variances and trends.

Ultimately, the aims of FSD&A information are to:

- enhance the users' understanding of a government's financial position and results of operations, enabling them to make more informed decisions and judgments; and
- enable a government to demonstrate accountability for the resources entrusted to it.

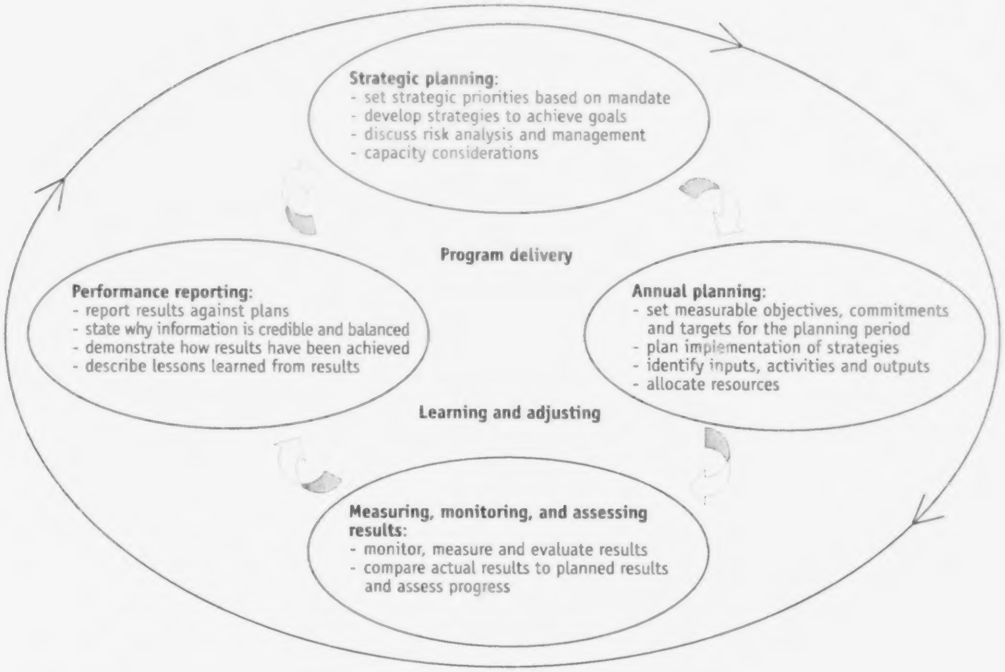
Figure 17 presents the key elements from PSAB's FSD&A Statement of Recommended Practice and findings from our review of the Annual Report in relation to the Statement of Practice.

PUBLIC PERFORMANCE REPORTING

To address the non-financial performance information of a public performance report, as well as the linkage of financial and non-financial performance information, PSAB recently developed a second Statement of Recommended Practice on Public Performance Reporting (PPR). The PPR highlights that the purpose of public performance reporting is to explain in a clear and concise manner the extent to which intended goals and objectives were achieved and at what cost. To be effective, performance reporting has to be part of a planning, implementation and monitoring of results framework (**Figure 17**).

FIGURE 17

Continuous Management Cycle


Strategic planning:
- set strategic priorities based on mandate
- develop strategies to achieve goals
- discuss risk analysis and management
- capacity considerations
Program delivery
Performance reporting:
- report results against plans
- state why information is credible and balanced
- demonstrate how results have been achieved
- describe lessons learned from results
Annual planning:
- set measurable objectives, commitments and targets for the planning period
- plan implementation of strategies
- identify inputs, activities and outputs
- allocate resources
Learning and adjusting
Measuring, monitoring, and assessing results:
- monitor, measure and evaluate results
- compare actual results to planned results and assess progress

Source: Excerpt from the CICA Public Performance Reporting (PPR) Statement of Recommended Practice

The Statement of Recommended Practice notes that:

> *Previously, entities focused their attention mainly on inputs and activities. The primary concern was what resources were being used and how they were being used. These matters continue to be important, however, there is now an increased focus on what is actually being achieved with the resources consumed, in relation to what was planned. (CICA Standards and Guidance Collection, Virtual Library, September 2006)*

PSAB based its PPR Statement of Recommended Practice on earlier work undertaken by CCAF, a national, non-profit research and education foundation that researches public sector accountability, management and audit issues. In 2001, CCAF released a set of Performance Reporting Principles. It developed its Performance Reporting Principles through extensive consultation with legislators, managers and auditors.

Figure 19 presents the key elements from PSAB's PPR Statement of Recommended Practice and findings from our review of the Annual Report in relation to the Statement of Recommended Practice.

CONCLUSION

The 2006 Annual Report continues to demonstrate the same limitations as the previous year's report (**Figure 18** and **Figure 19**). More work is needed in order for the text accompanying the financial statements to more fully elucidate those statements. As with the previous Annual Report, the 2006 Annual Report is still not outcome oriented and significant work is needed to bring the performance information presented in line with PSAB recommendations on reporting. Therefore, we reiterate the recommendation we initially made in 2004:

Recommendation 16

That the Province of Manitoba continue to reshape its Annual Report into a document that more closely reflects PSAB's Statement of Recommended Practice on Financial Statement Discussion and Analysis and PSAB's Statement of Recommended Practice on Public Performance Reporting.

First recommended in the 2004 Report to the Legislative Assembly.

FINDINGS

FIGURE 18

Comparison of Annual Report to PSAB's FSD&A

FSD&A Recommended Practice	Province of Manitoba Annual Report - March 31, 2006
Reference to Financial Statements • Reference to the related financial statements should be clearly made in the Financial Statement Discussion and Analysis (FSD&A).	• Reference to the financial statements is made in the introduction to the section on Financial Indicators Summary Financial Statement (p.25) and the introduction to the Operating Fund Discussion and Analysis (p.34). However, the text on pages 7 to 42 does not link the points that are made to specific financial statements/schedules.
Government Responsibility • Include an acknowledgement of the government's responsibility for preparation of the financial statements.	• A statement of government's responsibility is included.
Qualitative Characteristics *Understandability* • Avoid excessive detail, vague or overly technical descriptions and complex presentation formats. • Use plain language.	• Some of the information presented in the Annual Report assumes users have expert knowledge in accounting and economics (e.g. reference to GDP, real GDP, nominal GDP, derivatives, hedges, swaps, sinking fund, net direct and guaranteed debt). • Compared to the 2005 Annual Report, the tendency to repeat information from one section to the next has been noticeably reduced although not entirely eliminated. There are still instances where the same topic is covered under more than one section, e.g., pages 25 and 38 provide a table on unhedged foreign debt; pages 26 and 39 provide a table on net debt per capita; pages 26 and 39 contain a table on net debt as a percentage of GDP; and major expense categories are presented on pages 27 and 40. This repeated information is also confusing to the reader because it is presented in one section as restated and in another as not restated without adequate explanations. • The inclusion on page 8 of a summary financial position that is different than the one on page 55 can be confusing to a reader. Among the differences between these two summaries is that the one on page 8 indicates that the 2005 figures are restated while the one on page 55 does not indicate that the 2005 figures are restated. As well, the items captured in each table are different. • The Balanced Budget, Debt Repayment and Taxpayer Accountability Act is referred to on page 13, however, the reader is not given an explanation of the legislation and how it impacts the financial statements.
Relevance • Address significant matters that will likely affect judgments and decisions of users.	• The Annual Report identifies potential vulnerabilities that could impact future expenditures and revenues. However, there is a lack of emphasis on the summary financial statements. • It is not clear to the reader how the "Economic Report" relates to the financial statements and why this information is relevant to understanding the financial statements.
Reliability • Narrative explanations are consistent with information in the financial statements. • Information is verifiable by an independent observer. • Neutral and fair representation, free of bias.	• There is no discussion and analysis of the Summary Financial Statements. A lot of the discussion and analysis of the Operating Fund is still at a very detailed level and cannot be readily verified to the Special Purpose Financial Statements.
Comparability • Formulae for calculating ratios are clearly defined and consistently applied. • Disclosure of the effects of changes in calculating figures.	• Page 9 indicates that changes in accounting policies are explained on page 65, note 4. • The Financial Indicators Summary Financial Statements are presented as "restated" and under the section on Financial Indicators Operating Fund they are presented as "not restated". The reader is not given a definition in either section of those two ways of calculating the information and why they need to be presented in two ways.
Qualitative Characteristics Trade-Offs • Achieve an appropriate balance between the qualitative characteristics of understandability, relevance and comparability in order to meet the objective of providing the information.	• The Annual Report needs to become more understandable and to clarify for the reader why the information selected for discussion and analysis is relevant.

FIGURE 18 (CONT'D.)

Comparison of Annual Report to PSAB's FSD&A

FSD&A Recommended Practice	Province of Manitoba Annual Report - March 31, 2006
Presentation *Highlights* • Provides a concise summary of the significant events affecting the financial statement.	• While the Annual Report highlights the fiscal position of the Province, it does not provide a concise summary of the significant events affecting the financial statements. Although there are a few instances where explanations are given for results achieved (e.g., p. 22 in relation to farm cash receipts and p. 23 on hydro sales) generally, the reader is not provided with explanations regarding results achieved.
Analysis • Present information on known significant risks and uncertainties inherent in the government's financial position and changes in financial position.	• Three vulnerabilities are explained: foreign debt, federal fiscal arrangements, and volatility in revenue and expenses in the Government Reporting Entity.
• Outline the strategies, policies and techniques adopted to manage those risks and uncertainties.	• Very brief reference is made in the Annual Report regarding how vulnerabilities are being managed.
• Identify and explain significant variances between current year actual results and prior year actual results.	• Variance explanations between actual and budgeted expenses and revenues are provided on pages 34 to 36.
• Identify and explain changes that have occurred but are not readily apparent from the quantitative analysis.	• The Summary Financial Statements have been retroactively restated to reflect effects of the changes in accounting policies and the impact on net debt as well as the change in net debt. • The Special Purpose Financial Statements have not been retroactively restated (the impact of the change in an accounting policy and the correction of an error is only reflected as adjustments to the accumulated deficit).
• Analysis of significant trends related to financial assets, liabilities, net debt, tangible capital assets, net assets, revenue, expenses/expenditures, net revenue (expenses/expenditures), and cash flow.	• The Annual report only presents trends data in relation to debt, revenues and expenses.

FIGURE 19

Comparison of Annual Report to PSAB's PPR

PPR Recommended Practice	Province of Manitoba Annual Report - March 31, 2006
Credible Information	
• Performance information should be reliable and valid.	• Our review did not extend to the reliability of all data presented. We verified that the performance information obtained from the audited financial statements was reliable and valid.
• Performance information should be relevant.	• The significance of what was reported in the Annual Report is not made clear to the reader. For instance, why were achievements in meeting tax reductions chosen as relevant compared to various other key priorities/commitments? Likewise, how does the information in the Economic Report relate to Government's revenues, spending, objectives and priorities/commitments? The reader is left wondering what Government's role/contribution is in relation to various economic achievements presented in the Economic Report.
• Performance information should be fair and free of bias.	• The current focus of the Annual Report is on reporting financial information. It does not provide the reader with a picture on Government's non-financial performance. Therefore, at this time, no determination as to fairness is provided.
• Performance information should be comparable and should be based on consistent reporting practices.	• The Annual Report indicates that financial indicators data has been restated. Fuller explanations about the restatements and how to interpret restated data would be helpful to the reader.
• Performance information should be understandable by users.	• The Annual Report uses a great deal of technical jargon. The connection/link between the financial statements and the narrative text at the front of the report is not as clear as it could be.
• Performance information should balance trade-offs between the various characteristics of credibility.	• The Annual Report needs to become more understandable and to clarify for the reader why the information selected for discussion and analysis is relevant.
Focus on the Few Critical Aspects of Performance	
• Focus selectively and meaningfully on a small number of goals, objectives and key strategies.	• The Annual Report does not identify the focus for reporting and does not identify performance targets.
Reporting and Explaining Results	
• Describe the strategic direction in terms of high-level priorities and long-term goals.	• Not included in the Annual Report.
• State planned results in terms of expected outputs and outcomes.	• Not included in the Annual Report.
• Compare actual to planned results (targets/projections) including significant variances.	• Not included in the Annual Report.
• Provide comparative information that provides trends information for a period of more than two years to enable a reader to assess the trend.	• Comparative data over a five year period is provided for economic and financial indicators. However, it would be more meaningful for the reader to present comparative data within the context of specific goals and planned results. The Annual Report does not communicate Government's performance targets for its goals.
• Where available and appropriate, provide comparisons on actual results in relation to results of other similar organizations.	• Not included in the Annual Report.
Reporting on Key Factors Influencing Results	
• Identify significant risks, capacity considerations and other factors that impact on performance and results. Explain the nature of their impact and plans to manage them.	• Three vulnerabilities are identified on pages 12 and 13. Explanation of these risks, their impact and mitigation strategies need to be made clearer. Discussion of capacity risks and other factors that could influence results such as economic, social or demographic conditions and conduct of business are not included in the Annual Report.

FIGURE 19 (CONT'D.)

Comparison of Annual Report to PSAB's PPR

PPR Recommended Practice	Province of Manitoba Annual Report - March 31, 2006
Linking Financial and Non-Financial Information	
• The relationship between resources and results is explained - i.e., how decisions about goals influenced strategies and funding levels, or how resource availability influenced the selection or achievement of goals.	• Not included in the Annual Report.
• Aligning resources used/costs of programs and services to outputs and outcomes achieved.	• Not included in the Annual Report.
Disclosing the Basis for Reporting	
• A statement acknowledging the entity's responsibility for the report's preparation.	• A statement of Government's responsibility is included in relation to the Special Purpose Operating Fund and Special Funds financial statements. However, the Annual Report also needs to include a statement of responsibility regarding the narrative text reporting on performance.
• Explaining the basis on which those responsible for the preparation of the report have confidence in the reliability of the information in the report.	• Only included in relation to the financial statements.
• A description of the reporting entity.	• Not included in the Annual Report.
• The rationale for selecting the few critical aspects of performance on which to focus.	• Not included in the Annual Report.
• Any changes made to performance measures during the period, with restatement of prior period measures when appropriate.	• Only included in relation to accounting policy changes.

Performance Measures Reported in 2005/06 Departmental Annual Reports

INTRODUCTION

Our Office has been a long standing supporter of effective performance measurement and reporting by departments. Properly implemented, performance measurement and reporting can meaningfully contribute to:

- priority setting by government;
- strategic management by departments;
- resource allocation;
- internal and external communication of government goals, objectives, strategies and performance; and
- accountability.

In his message in *The Province of Manitoba Annual Report for the Year Ended March 31, 2006* the Minister of Finance states that:

> *…the 2005/06 annual report of every department will include measures to help increase transparency and accountability. Providing performance measurements will assist the reader in understanding how departments*

define success, and provide an overview of the challenges faced by departments in pursuing that success. (pages 7 - 8)

OBSERVATIONS

We support departmental efforts in taking a systematic approach to developing and reporting on their performance measures. From a review of the on-line 2005/06 annual reports, we observed that departments are using a common format for reporting on performance measures. The template contains an explanation of what is being measured and the relevance of each measure as well as reporting on the most recent data available, the trend over time and any additional comments that help to explain the results. These features of reporting are all positive steps towards building a performance measurement and reporting framework within each department.

Each 2005/06 departmental annual report contains a statement which explains that the intent of reporting on performance measures is to *"provide Manitobans with meaningful and useful information about government's activities, complementary to financial results"*. Departments are on the right track as to the purpose of performance measurement and reporting. This perspective is consistent with that of the Canadian Institute of Chartered Accountants (CICA) which has issued a Statement of Recommended Practice pertaining to Public Performance Reports (for details see previous section titled *Review of the Province of Manitoba Annual Report for the Year Ended March 31, 2006 in Relation to Recommended Practices in Performance Reporting*).

To build on their efforts and to ensure effective achievement of the intent of performance measurement and reporting, future steps that need to be taken by departments in reporting on performance include the following:

- presenting each measure within the context of a specific goal/objective;
- linking departmental goals/objectives to government-wide priorities;
- explaining significant risks, capacity considerations and other factors that impact performance;
- explaining how challenges and vulnerabilities are being managed/mitigated;
- identifying performance target;
- connecting performance reporting to the rest of the annual report so the reader can understand the link between programs/activities, outputs, costs, and outcomes;
- facilitating the reader's ability to connect expenditures with particular goals/objectives;
- identifying data sources in relation to each piece of reported data; and
- explaining the basis on which those preparing the report have confidence in the reliability of the information in the report.

We will continue to support departmental efforts in performance measurement and reporting by providing our observations on the level of progress being made in future years.

CONCLUSION

Departmental efforts represent a starting point in the process of building a meaningful and useful performance measurement and reporting framework. Additional steps are needed to fully develop effective departmental performance measurement and reporting.

Recommendation 17

That the Province of Manitoba further assist departments to improve performance measurement and reporting through guidance based on the CICA Statement of Recommended Practice on Public Performance Reporting.

2006 Recommendation

ROLE OF THE PUBLIC ACCOUNTS COMMITTEE OF MANITOBA

Role of the Public Accounts Committee of Manitoba

When it operates optimally, a Public Accounts Committee is a key oversight and accountability instrument. This Standing Committee can be an important tool for keeping the Legislative Assembly informed about the financial condition of the Province and for holding the Government answerable for the efficiency and effectiveness of its administration. On several occasions, as long ago as 1986, the Office of the Auditor General has pointed out that there are opportunities to improve the effectiveness of Manitoba's Standing Committee on Public Accounts.

At its July 11, 2000 meeting, the Public Accounts Committee (PAC) agreed to review how it operates and to develop proposed changes for endorsement by the Legislative Assembly. The Chairperson and Vice-Chairperson of the PAC consulted with the Office of the Auditor General and developed a set of proposed guidelines for reform. On August 8, 2002, the Legislative Assembly changed certain procedures for Manitoba's PAC. Further updates were made to the rules in 2005. The accompanying table, **Figure 20**, summarizes these changes and compares them to the reforms recommended by the Auditor General and contrasts them with the way in which the PAC had functioned up to then.

The adoption of new guidelines represented meaningful reform in the mandate, scope and general procedures that the PAC was to follow. Since the reforms of 2002, there has been an average of four meetings each year which is a significant increase from previous years. The reforms also made some movement towards making the PAC operate in a less partisan fashion. However, we continue to believe that further reforms are warranted.

In addition to the previous recommendations of the Auditor General, the PAC can look to guidelines issued by the Canadian Council of Public Accounts Committees. Also, in 2006 the CCAF-FCVI issued the publication, *Parliamentary Oversight-Committees and Relationships - A Guide to Strengthening Public Accounts Committees.* This material provides suggestions for strengthening the powers and practices of Public Accounts Committees.

The guidelines adopted by the Legislature in 2002 give the PAC the authority to review and make recommendations to the Legislative Assembly on the functioning of the Committee and its rules. We encourage the PAC to continue the trend of more frequent meetings and review the progress to date with the intention of further strengthening the Committee.

FIGURE 20

Practices of the Public Accounts Committee (PAC) of Manitoba Prior to Adopted Reforms	Reforms Recommended by the Auditor General of Manitoba	Changes to Procedures of Manitoba's Public Accounts Committee (PAC) Adopted by the Legislature
Membership on PAC • Cabinet Ministers are members of PAC. • The Minister of Finance is always a member.	Exclusion of Cabinet Ministers from membership on the PAC.	• With the exception of the Minister of Finance, Cabinet Ministers to be ineligible as members of PAC.
Governing Meetings • Meetings of the PAC convened at the call of the House Leader. • House Leader determines which of the Auditor General's reports are referred to the PAC for consideration.	A steering Committee of PAC to determine meeting agendas, and the number and frequency of PAC meetings (Steering Committee to consist of the chair and vice-chair of PAC and such other persons elected by PAC from among its members).	• After consulting with the PAC Chairperson and Vice-Chairperson, the Government House Leader shall call from six to eight meetings of the PAC per year. • All reports of the Auditor General stand automatically referred to the PAC (The Auditor General Act, proclaimed May 1, 2002).
Mandate of PAC • A written mandate was not in place.	Adoption of a written mandate for the PAC which includes: • holding Government accountable for the administration of public assets and spending of public funds; • reviewing legislative amendments that impact on the responsibilities of the Auditor General; • focusing on the effective and efficient administration of Government policies and programs.	• A written mandate for the PAC was adopted and is consistent with the recommendations of the Auditor General. • The PAC is also given the authority to review and make recommendations to the Legislature on the functioning of the PAC and its rules.
Committee Rules • Partially existed in the form of common procedures that apply to all standing committees of the Legislature (e.g., rules regarding quorum, replacement of members, in-camera meetings.	Adoption of a written set of operating principles that are consistent with the Guidelines issued by the Canadian Council of Public Accounts Committees.	• Written rules have been adopted that pertain specifically to the procedures that PAC shall follow in conducting its meetings and are generally consistent with the Guidelines of the Canadian Council of Public Accounts Committees.
Scope of PAC Mandate • No explicit statement in place regarding the scope of the PAC.	The PAC should have the right to examine all past, current and committed expenditures of government and recipients of public money.	• The scope of the PAC is consistent with the recommendations of the Auditor General.
Questioning Witnesses • Not an established practice.	The PAC should have and use the power to call and question witnesses, review information from them and examine papers and records.	• Incorporated into the PAC guidelines for Manitoba.
Auditor General's Role • Attended PAC meetings, answered questions and provided observations to the Committee as necessary.	The PAC should have the right to request the Auditor General to conduct specific reviews.	• Incorporated into the PAC guidelines for Manitoba.
Recommendations by PAC • Not an established practice.	The PAC should have the right to make recommendations to the Legislative Assembly and to put in place a systematic process for following-up on the implementation of its recommendations.	• Incorporated into the PAC guidelines for Manitoba.

COMPLIANCE WITH AUTHORITY AND AGREEMENTS ISSUES

Audit Opinion on Compliance with Legislative Authorities

Compliance with legislative authorities is essential for governments and government entities. We believe there is an increasing need for positive assurance of compliance to be provided by the government and its entities.

Accordingly, we have drafted guidelines for auditing compliance with authorities. The guidelines detail management's and auditor's responsibilities in providing assurance on compliance with authority for the government entity. Management is responsible for ensuring the entity complies with legislative authorities. The guideline requires management to prepare a certification addressed to the Board of Directors confirming the entity's compliance with specific legislative authorities identified that relate to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

The responsibility of the auditor is to form an opinion on the government entity's compliance with its legislative authorities as identified in management's certification.

We have piloted the guideline on:

- two government entities we audit directly;
- one entity where we use an agent in the audit; and
- one entity audited by an auditor external to our Office.

The results of the pilots were very favourable. The senior management and the Boards were very receptive to the process and found that it was a useful exercise.

Based on the results of the pilots, we will conduct further discussions with the Department of Finance, external auditors, and entity senior management with the intent to finalize the guidelines during 2007. We will work with these stakeholders to initiate audits of compliance with authorities for the Province and public sector entities for fiscal year ends ending on or after December 31, 2007. The compliance opinion would be separate from the audit opinion on the financial statements but will have the same deadline requirements as the financial statement audit opinion.

MUNICIPAL FINANCIAL REPORTING

Municipal Financial Reporting

THE PROVINCE'S COMMITMENT TO IMPLEMENT GAAP AS THE BASIS OF FINANCIAL REPORTING

In September 2002, the OAG issued a report titled, *Review of Municipal Financial Accounting and Reporting Standards in Manitoba.* In that report the OAG recommended:

> *"That the Department of Intergovernmental Affairs consider what role it can undertake in encouraging financial statements of municipalities to be prepared in accordance with the PSAB recommendation of the Canadian Institute of Chartered Accountants, which in turn would have municipalities preparing annual audited financial statements in compliance with Section 183(1) of The Municipal Act."*

The Department examined the issue of PSAB compliant reporting for municipalities. In 2003 the Department consulted with local government stakeholder groups to discuss a process for the implementation of PSAB recommendations and the preparation of PSAB compliant municipal financial statements. It was clear at that time that stakeholder groups felt that several things were important for the successful implementation of PSAB reporting guidelines: flexibility with respect to a timetable for compliance, sample formats as a guideline for compliance, and training materials and sessions.

In 2004, the Department drafted a "PSAB Recommendation Impact Study" to assist in the preparation of a sample format for municipal financial statements which would be PSAB compliant. The Department then examined PSAB materials prepared by the Provinces of Saskatchewan and Nova Scotia with a view to adopting their processes, however, the development of PSAB compliant forms was not completed due to staffing constraints at the Department.

The Province of Manitoba and the Association of Manitoba Municipalities are now undertaking a joint project to assist Manitoba municipalities outside of the City of Winnipeg in their move to adopt public sector accounting standards (GAAP) as the basis of financial reporting by the 2008 municipal fiscal year. A Request for Proposal will be issued to retain a consultant by who will develop a detailed implementation plan and timeline, recognizing the inherent complexities facing municipalities as they move to GAAP financial reporting. The Province intends to appoint a project manager to support plan delivery. As well, an advisory committee of representatives from the respective stakeholder groups will be struck to provide guidance on project implementation issues and working groups will also be established as needed to address specific issues.

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants sets the accounting standards for all levels of government. PSAB recently issued an exposure draft on a new reporting model applicable to all levels of government including local (municipal) governments. The revised standards would mean that the reporting model used by local governments would be the same as that currently used by senior governments. If adopted, the new reporting model would apply to fiscal years beginning on or after January 1, 2009.

Similarly, PSAB has already revised the accounting standards for tangible capital assets of local governments to require full recognition and amortization of tangible capital assets; these standards will be effective for fiscal years beginning on or after January 1, 2009.

AUDIT OF INFORMATION AND COMMUNICATIONS TECHNOLOGIES INFRASTRUCTURE SUPPORTING THE PUBLIC ACCOUNTS

Public Accounts – Assessment of General Computer Controls Over the Technological Infrastructure

As part of the audit of the Public Accounts for the year ending March 31, 2006, the OAG assessed general computer controls over the technological infrastructure supporting automated information systems significant to financial reporting for the Province. We contracted with a professional services firm for assistance with portions of the assessment.

We identified various internal control risks and recommendations for improvement that are technical and sensitive in nature. Consequently, they are included in a separate detailed audit report to be issued to the Comptroller's Office. The matters are summarized in **Figure 21**.

FIGURE 21

Technological Infrastructure Components	Recommendations for Improvement
SAP System-Level Controls	12
Computer Operating System Software Underlying SAP	8
Database Management System Software used by SAP	6
Computer Operating System Software Underlying Selected Taxation Information Systems (GenTax Systems)	5
Database Management System Software used by Selected Taxation Information Systems (GenTax Systems)	1
Other Controls	5
Total	37

1. SAP System-Level Controls

The twelve recommendations involve access rights for users, administration of granting user rights, and configuration of the SAP software. Some of the areas of concern leading to the need for recommendations were:

- Segregation of duties;
- Control over powerful user profiles and built-in user accounts;
- Control over sensitive transactions;
- Logging of security-related events; and
- Removal of unnecessary programs from the system.

2. Computer Operating System Software Underlying SAP

The eight recommendations involve security-related features or settings in the computer operating system software. Four are considered high risk and could lead to a compromise of the operating system or unauthorized disclosure of confidential data. The other four findings are considered medium risk and have to be used with other techniques order to compromise the operating system.

3. Database Management System Software Used By SAP

The six recommendations involve security-related features or settings in the database system management software. All six are regarded as medium risk.

4. Computer Operating System Software Underlying GenTax

The five recommendations involve security-related features or settings in the computer operating system. Four findings are regarded as medium risk and the remaining finding is rated as low risk.

5. Database Management System Software Used By GenTax

The one recommendation involved unnecessary use of a powerful user account and is regarded as medium risk.

6. Other Controls

There are five recommendations for improvement that involve:

- Collaboration between the Comptroller's Office and ICT Services Manitoba in ensuring effective computer-related controls over financial reporting;
- Internal Audit and Consulting Services assessing controls over financial reporting, including computer-related controls;
- Development of both disaster recovery plans for continuing computer processing and business continuity plans for continuing critical business functions in response to adverse events;
- Reviews of controls at providers of computer services; and
- Delays in removing access to the government computer network for former government personnel.

During 2006/07, we will follow up and report on the implementation status of the 37 recommendations.

EXTERNAL ASSESSMENT OF INTERNAL AUDIT AND CONSULTING SERVICES

Executive Summary

OBJECTIVE

The overall purpose of the assessment was to compare Manitoba's Internal Audit and Consulting Services (IACS) with the Institute of Internal Audit (IIA) Standards and applicable Canadian Institute of Chartered Accountants (CICA) Standards to assist IACS in modernizing their practices. As such, our aim was to provide timely analysis and recommendations as inputs to IACS in their process of refocusing their strategic direction and operations.

IIA requires internal audit groups to undertake an external assessment no later than January 1, 2007. Essentially the purpose of an external assessment is to ensure that IACS is carrying out its work in conformance with IIA Standards. The conclusions and recommendations contained in this report should therefore assist IACS in aligning its operation with IIA Standards.

CRITERIA, SCOPE AND APPROACH

The criteria for the assessment are presented in **Figure 23** with our main conclusions.

The assessment was based on the operation of IACS in fiscal year 2004/05. However, in some cases, data for years prior to 2004/05 were included in order to add context and demonstrate trends. As well, where appropriate, 2005/06 data was included.

The work did not examine, nor conclude on the effectiveness of IACS. Likewise, our external assessment did not include an examination of working paper files. Therefore, to complete the external assessment, IACS should engage the services of an external assessor to determine whether working paper files are consistent with IIA Standards.

Information on the operation of IACS was obtained from interviews with the Director of IACS and a review of documents provided including audit reports. As a component of this assessment, we analyzed a sample of 17 audit reports prepared by IACS in 2004/05 (35% of audit reports completed that year that were in excess of 100 hours).

We provided IACS with a more detailed report on our work in order to facilitate the implementation of the recommended improvements. The sections that follow are a synopsis of our work.

ORGANIZATION AND MANDATE OF IACS

IACS is a branch within the Department of Finance. The Director of IACS reports to the Comptroller of the Province of Manitoba. The objectives of IACS are to:

- *"serve management throughout government by providing value for money reviews and other internal audit services; and*
- *encourage the continual improvement of management practices and accountability".*[1]

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[1] *Manitoba Finance Supplementary Information for Legislative Review 2004-2005 Departmental Expenditure Estimates*, pg.60.

All government departments can access the services of IACS.

The total approved budget appropriation for IACS salaries and operating expenditures was $1,941,200.00 in fiscal year 2004/05. This appropriation is made through the Comptroller's Division.

SIGNIFICANT RECENT CHANGES

In 2005, a new Comptroller for the Province of Manitoba was appointed. Subsequently, in 2006, a new Director was appointed to IACS. Given these senior management changes, IACS considers itself to be in a transition period. It also recognizes the need to strengthen and modernize its operation. To that end, at the time of writing, IACS was in the process of developing a new strategic direction and plan of implementation.

ROLE OF INTERNAL AUDIT VERSUS LEGISLATIVE AUDIT

The internal audit function is distinctly different from that of legislative auditors (the external auditor for the province). The main differences in the work of each type of auditor are presented in **Figure 22**.

FIGURE 22

Comparison Between Internal Audit and Legislative Audit

	Internal Audit Function Within Government	Legislative Audit
Primary Purpose	• Serving management.	• Serving Legislative Assemblies/citizens.
Accountability and Reporting	• Internal to government: - Management; - Internal audit committees.	• Legislative Assemblies. • Public.
Jurisdiction	• Government departments.	• The Government Reporting Entity (i.e., government departments, agencies, crown corporations, commissions). • Recipients of public money.
Selection of Audits	• By internal audit subject to approval of an internal audit committee or equivalent.	• By the Auditor General (except for audits assigned by statute to be undertaken by the Auditor General).
Scope of Work	• Assurance (not including financial statement audits). • Consultancy/advisory.	• Assurance including audit opinion on the public accounts (financial statements of the Government Reporting Entity).

MODERN INTERNAL AUDITING

Modern, leading edge internal audit services are characterized by *"a shift toward more proactive auditing rather than after-the-fact detective auditing. The intention is to identify risks, trends or breakdowns before problems occur"*.[2] Key strategies for internal audit services to be leading edge are as follows[3]:

- Establish an internal audit committee with some members who are external to the organization;

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[2] Jeffrey Ridley and Andrew Chambers. *Leading Edge Internal Auditing*. ICSA Publishing, 1998, pg.15.

[3] Jeffrey Ridley and Andrew Chambers. *Leading Edge Internal Auditing*. ICSA Publishing, 1998, pgs. xxxiii, and 10 to 17.

- Adopt and comply with professional standards;
- Recruit and retain capable staff;
- Establish and communicate a clear vision and strategy;
- Demonstrate the value of internal audit;
- Understand client/stakeholder needs;
- Focus on risk;
- Monitor internal controls;
- Educate management on risks and controls;
- Improve audit processes;
- Improve the communication of results; and
- Continuously strive to improve quality in internal audit services.

Key steps to achieve these strategies include:

- Assessing the merits of greater use of technology in carrying out audits;
- Audit involvement at the design and implementation stages of systems and programs; and
- Attention to trend analysis and risk analysis in planning, carrying out audits and reporting them.

CONCLUSIONS

IACS needs to take a number of critical steps in order to meet IIA Standards and thus modernize its practices. More specifically, we reached the following conclusions in relation to the assessment criteria:

FIGURE 23

Assessment Criteria	Conclusions
Independence and Objectivity Maintain an appropriate level of independence and objectivity. **(Section 4.1 of Report)**	• IACS had policies to assist it to maintain its objectivity. These policies, which are contained in the *Internal Audit and Consulting Services Manual* (The Manual) include the requirement that: - for a period of two years, an auditor shall not be assigned to undertake audit work in relation to programs they were previously involved in delivering; and - an auditor should not assume direct authority or responsibility over any area of work that they may be expected to audit. • There is no policy that an auditor who provides consultancy work in a given area should not be the same auditor who at a future date accepts an assurance engagement regarding the same subject. • As well, the perception of a more appropriate level of independence and objectivity would be achieved, if an internal audit committee was established that IACS reported to, instead of the current arrangement of reporting to the Provincial Comptroller.
Roles and Responsibilities Have clear roles and responsibilities. **(Section 4.2 of Report)**	• While some direction regarding the roles and responsibilities of IACS were contained in The Manual and the Government's *Financial Administration Manual*, there was an absence of an audit charter. An audit charter is intended to provide a comprehensive statement of an internal audit group's purpose, authority, responsibilities, and reporting relationships. • IACS had position descriptions for all auditor positions, including the director's. These position descriptions identified the duties of each position. However, they did not clearly identify the level of competency expected from each position classification.
Professional Standards in Planning and Executing Work Provide audit staff with guidance that is consistent with professional standards in planning and executing work. **(Section 4.3 of Report)**	• The Manual contained guidance for auditors in conducting their work. IACS also relied on the Conflict of Interest Policy that applied to all departments. However, in many instances these sources were only partially consistent with current IIA Professional Standards. This is because the Manual was last updated in 1998. Since then, there have been changes to professional standards. • The activities of IACS were not guided by a long-term strategic plan, mid-term plan and annual operational plan. The ability to achieve an organization's objectives will be seriously limited and organizational setbacks may occur in the absence of effective planning. Without a clear distinction between strategic planning and more detailed mid-term and operational planning, strategic thinking in an organization may not receive the appropriate emphasis it requires.
Resourcing Have sufficient and appropriate resources to carry out its work. **(Section 4.4 of Report)**	• IACS had a process for matching an auditor's skills to audit assignments. However, slightly more than half of the auditors in IACS were eligible to retire in five years. Without succession planning, IACS ran the risk of weaker future services with the loss of expertise and knowledge as staff retire. • In 2004/05, IACS had to forgo three vacancies of auditor positions. As well, one auditor position was seconded without recovery of the salary, and thus IACS was unable to fill that position. In 2005/06 another position from IACS was assigned to another branch within the Department of Finance without recovery of salary. • Insufficient resources were devoted to professional development compared to a sample of other jurisdictions. Moreover, professional development was undertaken on an ad hoc basis. The Manual required the preparation of an annual training and development plan. By not having such a plan in place, IACS did not have a way of ensuring that it was delivering on its policy of providing *"suitable training and development to all staff"* as per Section 2700 of The Manual. • While IACS staff had access to word processing and Excel software and the internet, it had not formally assessed its information technology needs. Consequently, it did not know whether there were opportunities for greater efficiencies in conducting audits through greater use of certain types of software.
Communication of Audit Findings and Recommendations Have regular and timely communication on its findings and recommendations. **(Section 4.5 of Report)**	• IACS prepared audit reports for clients in order to communicate the results of audit engagements. A sample of 15 audit reports prepared by IACS generally contained a background section, objectives, scope, approach, observations, conclusions and recommendations. However, these needed enhancements in order to make them clearer, more concise, constructive and complete, pursuant to IIA Standards. • The content of two attest audit reports that we reviewed were consistent with CICA Standards. • IACS collected insufficient information for us to be able to conclude on the timeliness of issuance of its audit reports. • IACS did not have a policy regarding access to the audit reports it prepared. Without a policy on access to internal audit reports, there was the potential for an inconsistent approach across departments in regard to access to IACS reports. • IACS did not prepare and distribute to the Provincial Comptroller and deputy ministers an annual report highlighting: its activities, its performance relative to planned performance, and government-wide audit issues. This type of annual reporting has a number of benefits including: maintaining managerial accountability; informed decision-making; and a valuable communication link with departments and government-wide.

FIGURE 23 (CONT'D.)

Assessment Criteria	Conclusions
Follow-Ups on Audit Reports Systematically conduct regular follow-ups on audit recommendations. **(Section 4.6 of Report)**	• Follow-ups on audit recommendations were not standard practice by IACS. As a result, IACS did not have information as to whether departments were implementing its recommendations in a timely and adequate manner.
Performance Measurement and Evaluation Have sufficiently comprehensive processes for continuously monitoring its effectiveness, including periodic internal and external quality assessments of all aspects of its operation. **(Section 4.7of Report)**	• IACS tracked data on the number of hours spent on each audit by each person, and conducted client satisfaction surveys and employee performance appraisals. While these are components of performance measurement, they were not sufficiently comprehensive. Consequently, IACS did not have evidence-based information on whether its resources were being utilized appropriately with sufficient regard to economy and efficiency. • A limited internal self-assessment was undertaken by IACS. Its focus was on efficiency. Internal assessments should, pursuant to IIA Standards have included other components including a review of compliance with IIA Standards. • This report serves as the external assessment that IACS is required to undertake within 5 years of January 1, 2002 and needs to be supplemented by IACS conducting an independent review of its working paper files by January 1, 2007.
Adding Value Adding value through its work. **(Section 4.8 of Report)**	• There are opportunities for IACS to add more value through its work. For instance, a risk-based approach to project selection would offer IACS a greater opportunity to add value by proactive, preventative auditing as opposed to reactive auditing. Likewise, audit reports offer IACS with a forum for education and promoting best practices.

RECOMMENDATIONS

An internal audit committee plays a critical role in the overall functioning of an internal audit group. When fully functional, an internal audit committee establishes the importance and executive direction for an internal audit group. For a cultural shift that modernizes the internal audit function and accords it a higher profile and significance there needs to be an internal audit committee that sets the appropriate tone at the top.

A number of the recommendations below are based on the assumption that a government-wide internal audit committee will be established with clear roles and responsibilities including the following:

- approving the audit charter that will guide the activities of IACS;
- having input into and approving IACS' strategic plan, mid-term operational plan, and annual work program of audits;
- approving the appointment and salary of the chief audit executive;
- making enquiries of management and the chief audit executive to determine if there are scope or budgetary limitations that impede IACS' ability to function properly;
- approving the scope of external assessments of IACS which are supposed to take place every 5 years; and
- providing a forum for discussion to identify areas worthy of examination by IACS.

Independence and Objectivity

- That IACS report functionally to a government-wide Internal Audit Committee and administratively to a senior executive.
- That IACS find a way in which to implement periodic rotation of Audit Partners between departments or if not feasible, to put in place other measures to ensure against the risk of familiarity or perceived risk of familiarity by virtue of long association.
- That IACS institute a policy and procedure to ensure that the same auditor is not assigned to provide both advisory and assurance services in regard to the same program.

Roles and Responsibilities

- That an audit charter be prepared by IACS that: consolidates in the charter relevant provisions from the *Internal Audit and Consulting Services Manual and the Financial Administration Manual*; and is consistent with IIA's *International Standards for the Professional Practice of Internal Auditing*.
- That the audit charter be approved by the Internal Audit Committee.
- That Manitoba's *Core Competencies* form the starting point for IACS to update position descriptions to identify specific competency requirements including competencies for effective interpersonal skills, oral communication and written communication.
- That position descriptions be reviewed periodically to ensure they reflect changes in expectations and adhere to current approaches to position descriptions.

Professional Standards in Planning and Executing Work

- That IACS develop a Code of Conduct that addresses all of the IIA Code of Ethics requirements.
- That IACS conduct a comprehensive review of its Manual and update it as necessary to reflect current IIA Standards.
- That IACS develop a long-term strategic plan with input from and approval by the Internal Audit Committee that includes the following components:
    - an identification of key organizational issues and audit risks (prepared in consultation with senior management within departments, and the Internal Audit Committee);
    - the goals and objectives of IACS intended to address key issues and audit risks; and
    - provisions for performance monitoring, measurement and internal and external reviews.
- That IACS review and update its long-term strategic plan at least every three years.

- That IACS prepare a mid-term operational plan, with input from and approval by the Internal Audit Committee, based on an approved strategic plan. Mid-term plans should be updated annually and should address such matters as:
  - staffing, competency needs and professional development;
  - information technology requirements;
  - budgeting requirements; and
  - how performance monitoring, measurement, and internal and external assessments will be operationalized.
- That IACS prepare, with input from and approval by the Internal Audit Committee, annual work programs to implement its approved strategic and mid-term plans. Annual work programs should include:
  - the specific risk-based audit projects that will be undertaken, who they will be assigned to, and the rationale for selecting the projects;
  - the professional development activities for the year;
  - assigning to staff specific performance measurement, monitoring and reporting activities;
  - assigning to staff specific activities that may be needed in regard to an internal/external assessment; and
  - projected time frame and budget allocation for each activity in the annual work program (including non-audit activities).

Resourcing

- That IACS develop and implement a succession strategy that includes:
  - opportunities to capture the knowledge and experience of auditors who are close to retiring; and
  - a formal program for building technical and managerial competencies for the less experienced auditors as well as new entrants who will be recruited.
- That IACS prepare an annual professional development plan the content of which should include those elements identified in their *Internal Audit and Consulting Services Manual* (1998).
- That the annual professional development plan be based on the annual performance appraisals of employees which identify skills that need strengthening.
- That IACS undertake a cost-benefit assessment of computer software that would facilitate its audit work and develop an information technology plan of action based on this assessment.

Communication of Audit Findings and Recommendations

- That IACS take steps to ensure that its audit reports more closely reflect the expectations of IIA in reporting on audits including focusing audit reports on risk and internal controls.
- That IACS standardize the format of its audit reports and clarify for audit staff the expected content of each section of an audit report.
- That IACS take steps to ensure a better response rate to its client survey.
- That IACS automatically provide copies of internal audit reports to the Auditor General of Manitoba, as the external auditor for the Province.
- That IACS, with input from departments and legal counsel, develop a policy and procedures that will guide it in making decisions on requests for internal audit reports whether such requests come from another department, an organization within the government reporting entity or a source external to government. Such a policy should be approved by the Internal Audit Committee and should include:
    - an assessment of potential risk to the organization;
    - consultation with senior management and/or legal counsel as appropriate; and
    - a control on dissemination by restricting how internal audit reports are used by those who request them.
- That IACS prepare an annual report that is shared with those to whom it reports functionally and administratively as well as executive management (deputy ministers). Such an annual report should include the following:
    - a synopsis of audit objectives, findings, and recommendations for each project;
    - a synopsis of findings from follow-ups on the implementation of audit recommendations;
    - significant risk exposures and control issues, corporate governance issues, and other matters requested by the audit committee and/or senior management;
    - how the activities of the internal audit group are fulfilling its audit charter and planned performance; and
    - a synopsis of the results of internal/external assessments of IACS.

Follow-Up on Audit Reports

- That IACS undertake regular follow-up audits on all of its audit recommendations.

Performance Measurement and Assessments

- That IACS develop and implement a performance measurement system to measure its performance in relation to its planned results in order to generate performance information that will guide the management of its operation.
- That IACS plan for and undertake periodic internal assessments.
- That IACS prepare and implement a plan of action to address areas identified through the internal assessment as needing improvement.
- That IACS communicate to the Internal Audit Committee the results of internal assessments and the necessary action plans and progress reports on implementation of such plans.
- That IACS plan for and undertake an independent external assessment of its working paper files no later than January 1, 2007.
- Consistent with IIA requirements, that IACS plan for external assessments every five years from the date of January 1, 2007 that cover the scope of IIA's expectations regarding external assessments.
- That the scope of an independent external assessment be approved by the Internal Audit Committee.
- That the results of an external assessment and action plan to implement improvements as well as progress reports on implementation of the plan be communicated to the Internal Audit Committee by IACS.

Adding Value

- That IACS establish a risk-based approach to selecting audit projects that are consistent with its strategic direction.
- That the selection of risk-based audits be undertaken in consultation with the Internal Audit Committee and senior management.
- That IACS develop a formal procedure for regular, oral and written communication with the Comptroller and the Secretary to Treasury Board on audit issues including risk management, control and governance processes.
- That IACS seek opportunities through their audit reports to communicate learnings and best practices pertaining to the audit engagement.

Management's Response

General Comments

The review has confirmed the need for enhanced practices, including a more proactive approach, which have been recognized by management. Under the direction of the new Director and in accordance with strategic and operational planning that has been instituted, Internal Audit and Consulting Services are embarking on modernization of internal audit processes.

1. Independence and Objectivity
   - **Corporate Audit Committee**: Further information is being obtained for consideration of a potential implementation strategy in this regard.
   - **Rotation of Audit Partners**: Recently this has occurred, and will continue to occur, with expected retirements and succession. In the future, consideration will be given to periodic rotation, although priority emphasis is essential on ensuring sufficient knowledge of the client's business.
   - **Policy to separate advisory and assurance services**: Agreed and will be implemented subject to availability of audit resources. To the extent possible IACS will continue to endeavour to separate advisory versus assurance services performed by individual staff.
2. Roles and Responsibilities
   - **Audit Charter and approval by Audit Committee**: Pursuant to the anticipated establishment of a Corporate Audit Committee, a formal Audit Charter will be developed for its approval.
   - **Job descriptions core competencies**: Agreed. IACS is in process of gathering information in support of refining job descriptions to reference core competencies. Future evaluation of strengthening the management organizational structure would enable greater attention to staffing issues including evaluation of competencies and staff development and training.
   - **Periodic review of job descriptions**: Agreed. IACS will endeavour to review the relevance of job descriptions every three to five years in conjunction with strategic planning or process assessments.
3. Professional Standards in Planning and Executing Audit Work
   - **Code of Conduct refined to incorporate all IIA Code of Ethics requirements and Manual updated to reflect current IIA standards**: Agreed. Work has commenced to update the Manual including the Code of Conduct to reflect IIA standards and requirements.
   - **Long-term strategic plan developed and approved by Audit Committee**: Agreed. A strategic plan has been developed. Future updates of the strategic plan will be approved by the Corporate Audit Committee pending its formation.

- **Review and update of strategic plan every three years**: Agreed.
- **Mid-term Operational plan developed and approved by Audit Committee**: Agreed. An operational plan has been developed and mid-term planning commenced with the 2007/08 Estimates process. Future approval of plans by the Corporate Audit Committee is contingent on its formation.

4. Resourcing
   - **Succession strategy and formal training program**: Agreed. Opportunities will continue to be identified for transference of knowledge. Since January 1, 2006, IACS has been engaged in actively recruiting and hiring staff to fill vacant positions. The need to build a strong foundation of skills is recognized and opportunities will be further explored pursuant to initiatives pertaining to the identification of core competencies, related performance appraisals and a professional development plan for staff. All audit staff are encouraged and supported in obtaining the IIA's Certified Internal Auditor (CIA) designation; computer audit (CISA) and Certified Fraud Examiner (CFE) designations are also encouraged. Training programs for new staff and specific core competencies can be instituted as designated staff and financial resources permit, and we will be evaluating our organizational management capacity to facilitate the implementation of improvements in this area.
   - **Annual Professional Development Plan**: Agreed. A professional development plan has been drafted and is subject to resource approvals for 2007/08. We will be evaluating our organizational management capacity to facilitate the implementation of improvements in this area.
   - **Annual Professional Development Plan based on annual performance appraisals**: Agreed. Future annual performance appraisals based on competencies will be utilized to identify skills that need strengthening. We will be evaluating our organizational management capacity to facilitate the implementation of improvements in this area.
   - **Cost-Benefit Assessment of internal audit computer software technology**: Agreed. Further consideration will be given to the specific need and costs associated with specifically contracting for a formal external assessment of internal audit software technology. In the interim, IACS has requested further information from the OAG on its experience in using such software, for consideration of adopting similar technologies. Expanded use of other technologies such as computerized sample selection will also be pursued by IACS subject to availability of resources. We will be evaluating our organizational management capacity to facilitate the implementation of improvements in this area.

5. Communication of Audit Findings and Recommendations:
    - **Audit reports based on IIA professional practices including focus on risk and control**: Agreed. IACS has instituted measures to increase its focus on risk- based audits, internal control compliance and comptrollership.
    - **Audit report standardized format**: Agreed. Opportunities to enhance the consistency of terminology and format of audit reports will be explored in conjunction with initiatives to update the Internal Audit Manual and the development of supporting audit forms.
    - **Steps to improve client survey response rate**: Agreed. The administrative process has been reinstituted including follow-up on survey responses outstanding and this is resulting in an improved response rate.
    - **Internal Audit reports to be automatically provided to Manitoba's Office of the Auditor General**: As this practice is a departure from prior practices, client departments will need to be informed and formal report distribution protocols and policy should be approved by the corporate Audit Committee, pending its formation.
    - **Report release policy developed with input from departments and legal counsel and approved by Audit Committee**: Agreed. It is expected that report release protocols and policy including legal counsel's opinion will be given further consideration by executive management and future Audit Committee, pending its formation.
    - **IACS Annual Reports to those to whom it reports functionally and administratively, as well as to Executive Management (Deputy Ministers)**: Agreed. Improved annual reporting will be instituted relative to fiscal year 2006/07 results. We will be evaluating our organizational management capacity to facilitate the implementation of improvements in this area.

6. Follow-up on Audit Reports
    - **Undertake regular follow-ups on audit recommendations**: Agreed. A follow-up policy and strategy have been recently implemented.

7. Performance Measurements and Assessments
    - **Performance measurement system for IACS operations**: Agreed. An enhanced set of performance measures will be developed for accountability reporting. We will be evaluating our organizational administrative and management capacity to facilitate the implementation of tracking and continued improvements in this area.
    - **Internal assessments planned and periodically undertaken**: Agreed. We will be evaluating our organizational management capacity to facilitate the implementation of improvements in this area.
    - **Internal assessment action plan to address areas identified**: Agreed. Future internal assessments will incorporate an action plan to address issues identified.

- **Internal assessment results, action plan, and progress communicated to Audit Committee**: Agreed. Future internal assessments will incorporate communication of results, actions and progress to the Corporate Audit Committee, pending its formation.
- **External assessment working paper file review completed by January 1, 2007; external assessments every five years thereafter per IIA requirements**: Agreed. To complete the current external assessment conducted by the OAG, IACS has arranged for an external review of the working paper project files as required. Future external assessments will be engaged every five years per IIA standards.
- **External assessment scope approved by Internal Audit Committee**: Agreed that this will be done by a future Audit Committee, pending its formation.
- **External assessment results, action plan, and progress reports communicated to Audit Committee**: Agreed. Progress on the results of the external reviews will be tracked and will also be reported to the Corporate Audit Committee, pending its formation.

8. Adding Value
   - **Risk-based approach to selecting audit projects consistent with strategic direction**: Agreed. IACS initiated a risk-based perspective for 2006/07, and additional improvements are in process for 2007/08. Enhanced processes should be facilitated through the establishment of a Comptrollership audit portfolio. We will be evaluating our organizational management capacity to facilitate the implementation of continued improvements in this area.
   - **Selection of risk-based audits undertaken with senior management and the Internal Audit Committee**: Agreed. In conjunction with 2006/07 audit plans, departmental Deputy Ministers and EFOs were specifically requested to give consideration to risk factors to ensure that audit services were value added and dedicated to areas of highest risk. In future, a Corporate Audit Committee should help promote an increased emphasis of risk-based, government-wide and horizontal audit approaches.
   - **Formal procedure for regular oral and written communication with the Comptroller and Secretary to Treasury Board on audit issues, including risk management, control and governance processes**: Agreed. Opportunities to pursue improved communication on audit issues are being pursued and will be formalized as organizational management capacity permits.
   - **Seek opportunities through audit reports to communicate learnings and best practices**: Agreed. Increased emphasis on risk-based, government-wide and horizontal audit approaches should result in enhanced information on systemic issues and best practices. As we advance with these processes, enhanced reporting on systemic findings and best practices should evolve.

FUTURE HANDBOOK SECTIONS AFFECTING THE PUBLIC ACCOUNTS

Public Sector Accounting Board

The Canadian Institute of Chartered Accountants (CICA) sets out Generally Accepted Accounting Principals (GAAP) for entities in Canada. The recommendations and guidance on accounting for businesses and not-for-profit entities are detailed in the *CICA Accounting Handbook.*

However, there are unique accounting issues encountered in the public sector that are different from the issues encountered in the private sector. The CICA recognized the unique characteristics of accounting in the public sector and established the Public Sector Accounting Board (PSAB) to issue recommendations and guidance regarding GAAP in the public sector. These recommendations and guidance strengthen accountability in the public sector through developing, recommending and gaining acceptance of accounting and financial reporting standards. PSAB recommendations and guidance are detailed in the *PSAB Handbook.*

PSAB defines the public sector to include federal, provincial, territorial and local governments, government organizations, government partnerships and school boards.

The public sector reported on by the Office of the Auditor General in Manitoba is comprised of the Summary Financial Statements of the Province of Manitoba and the government organizations consolidated in these statements. This is described as the Government Reporting Entity.

PSAB recommendations directly apply to the Summary Financial Statements of the Government of Manitoba. The Auditor's Report issued by the Office of the Auditor General in Manitoba on the Summary Financial Statements reflects the extent to which government financial statements comply with PSAB standards.

Our Office and private sector auditors report on the financial statements of the government organizations making up the Government Reporting Entity. These government organizations may base their accounting on the *PSAB Handbook* or the *CICA Accounting Handbook* depending on the nature of the organization. Government business-type organizations and government not-for-profit organizations adhere to the recommendations in the *CICA Accounting Handbook.* Other government organizations base the accounting policies on those that most appropriately reflect their objectives and circumstances - based on the accounting recommendations of PSAB or on the recommendations in the *CICA Accounting Handbook.* Where the *PSAB Handbook* or the *CICA Accounting Handbook* is silent on a particular issue, the entity obtains guidance from other acceptable sources.

PSAB is responsible for developing Generally Accepted Accounting Principles (GAAP) for the public sector. Accordingly, it has approved a number of projects to develop these standards.

After developing the draft standards, PSAB then issues exposure drafts on the proposed standards to be included in the Handbook. Comments on the proposed standards are requested from interested parties. Depending on the comments received, the standards in the exposure drafts may be adopted, changed, reissued as another exposure draft or withdrawn. Once adopted the standards are included in the Handbooks and are then considered GAAP.

PSAB also issues research studies to provide guidance on specific areas.

New and Future PSAB Handbook Sections Affecting Financial Reporting in Public Accounts

The new Handbook sections, exposure drafts and other projects highlighted below have a potential affect on GAAP for the Public Accounts (Summary Financial Statements) of the Province of Manitoba.

NEW PSAB HANDBOOK SECTIONS AND OTHER GUIDANCE

Segment Disclosures - Section PS 2700

In April 2006, PSAB issued a new section establishing standards on how to define and disclose segments in the summary financial statements of federal, provincial and local governments.

Government summary financial statements are required to separately disclose the following information about each of a government's segments:

- the basis for identifying segments, the nature of the segments and the activities they encompass, and the method of significant allocations to segments;
- segment expense by major object or category;
- segment revenue by source and type;
- the aggregate of the net surplus/deficit of government business enterprises and government business partnerships accounted for under the modified equity method for each segment, if applicable;
- the aggregate of the net surplus/deficit of government organizations accounted for under the modified equity basis in accordance with the transitional provisions of the Government Reporting Entity Section PS 1300 for each segment, if applicable; and
- a reconciliation between the information disclosed for segments and the consolidated information in the summary financial statements.

The objectives of disclosing this information are to enhance the transparency of financial reporting and to help users of the financial statements:

- identify the resources allocated to support the major activities of the government;
- make more informed judgments about the government reporting entity and about its major activities;

- better understand the manner in which the organizations in government are organized and how the government discharges its accountability obligations; and
- better understand the performance of the segments and the government reporting entity.

A segment is a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of this Section.

The section is effective for fiscal years beginning on or after April 1, 2007.

Tangible Capital Assets – Section PS 3150

In September 2006, PSAB revised the section on tangible capital assets. The main changes to the section are:

- The definition of cost has been amended to clarify that cost is the gross amount and that capital grants are not to be netted against the cost of the related tangible capital asset. Guidance on the cost of leased tangible capital assets is also provided;
- The 40 year guideline on the amortization period has been removed; and
- There is additional guidance on the starting and ending of capitalizing carrying costs.

The Section now applies to all levels of government. It applies to local governments for fiscal years beginning on or after January 1, 2009. During the period of transition to the standards in this section, local governments should follow Public Sector Guideline PSG-7, *Tangible Capital Assets of Local Government.*

The main impact of these changes on the Summary Financial Statements of the Province of Manitoba is that new funding received by Manitoba for capital projects cannot be deducted from the cost of the capital assets.

The section is effective the date this section was revised - September 2006.

Performance Reporting – Statement of Recommended Practice (SORP-2)

PSAB issued a second Statement of Recommended Practice (SORP-2) on public performance reporting in September 2006.

The first Statement of Recommended Practice (SORP-1) on public performance reporting provided guidance on financial performance reporting. However, PSAB recognized that government financial statements alone are not sufficient to demonstrate the government's accountability and performance.

Accordingly, PSAB issued a second Statement of Recommended Practice (SORP-2) on public performance reporting. SORP-2 addresses the non-financial performance information of a public performance report, as well as the linkage of financial and non-financial performance information. In addition, information about governance practices and conduct of business is encouraged to provide a complete and comprehensive picture of the entity's performance.

Statements of Recommended Practice are not part of generally accepted accounting principles but serve to provide guidance for the development and acceptance of performance reporting recommendations.

PSAB PROJECTS

Government Transfers

The government transfers project was started in 2002 because there was disagreement in the public sector regarding the interpretation of the government transfers section. The major areas of disagreement included:

- the appropriate accounting for multi-year funding provided by governments;
- the nature and extent of the authorization needed to be in place for a transfer to be recognized;
- the degree to which stipulations imposed by a transferring government should impact the timing of recognition of the transfer by both the transferor and recipient governments; and
- the appropriate accounting for capital transfers received under expense-based accounting.

As part of this project, PSAB has issued:

- a Statement of Principles (SOP) in 2002;
- an Associates Exposure Draft in June 2004; and
- a second Associates Exposure Draft in June 2005.

Throughout the project and inherent in the above SOP and Exposure Drafts is the concept that deferral of transfers may be appropriate in some instances. PSAB tried without success to build a convincing case within the SOP and Exposure Drafts, and within the boundaries of the conceptual framework, to theoretically substantiate the deferral of transfers in a way that a majority of the community would support. However, the reaction to the SOP and Exposure Drafts has been mixed.

PSAB concluded that deferral of transfers could not be substantiated within the conceptual framework for a transferring or recipient government. Accordingly, PSAB has issued a new Exposure Draft in June 2006 that does not allow deferrals. The main features of this Exposure Draft are as follows:

- Government transfers are transfers of monetary assets or tangible capital assets from a government to an individual, an organization or another government for which the government making the transfer does not:
    - receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;

  - expect to be repaid in the future, as would be expected in a loan; or
  - expect a direct financial return, as would be expected in an investment.

- Government transfers should be recognized as revenue or expenses when the transfer has been authorized and any eligibility criteria have been met.

- A determination that a transfer is authorized requires evidence at the financial statement date of:

  - the authority to enter into a transaction, which is conveyed through approved legislation, regulations or by-laws; and
  - the exercise of authority under legislation, regulations or by-laws in place at the financial statement date.

Proposed revised government transfers section and consequential amendments will apply to all governments for fiscal years beginning on or after January 1, 2009. The proposed long transition period for revised Section PS 3410 is intended to allow time for governments to consider the impact of the new standards on their policies, legislation, regulations and by-laws.

Status: Responses to the Exposure Draft have been received and are being evaluated.

Impact on Manitoba's Summary Financial Statements

At present, the Government's accounting policies for government transfers are as follows:

- Recognition of non-capital funding including multi-year (Federal) Government transfers occurs in the fiscal year that the transfer is authorized and the eligibility criteria have been met;

- Recognition of capital funding from the Federal Government for the acquisition of medical equipment including diagnostic equipment is deferred until the fiscal year the equipment is acquired; and

- Reduction of the cost of applicable capital assets for capital funding received from the Federal Government under shared cost agreements. Amortization of the capital assets is calculated on the net amount;

The Government's Accounting policy for non-capital government transfers is consistent with the proposed new standards. However, the new accounting standards will no longer permit the deferral of the recognition of capital funding for fiscal years beginning on or after January 1, 2009 (2009/10 fiscal year). The proposed new standards provide a transition provision, if the standards are adopted before then, which would allow for the continued deferral of restricted capital funding until January 1, 2009 or the fiscal year the equipment is acquired, whichever is earlier.

The change in the accounting standards will also require the Government to recognize capital funding as revenue in the year it is authorized and the eligibility criteria have been met. This change will increase the potential for significant volatility in the reported summary net income. However, if the government transfer is recognized as revenue in the same fiscal year as the asset is acquired, there will be no impact on the reported Net Debt (over the useful life of the asset).

The proposed new standards may also require the Government to disclose a contractual obligation related to any unfulfilled stipulations attached to the government transfer.

There may also be consequential amendments to the accounting for capital grants by government not-for-profit and business-type organizations which would no longer permit the netting of a capital grant against the cost of the asset it is used to acquire.

Financial Instruments

Derivative and other sophisticated non-traditional financial instruments are increasingly being used by governments to manage financial exposures such as interest rate exposures.

However, the *PSAB Handbook* does not have presentation, disclosure and measurement standards for sophisticated, non-traditional financial instruments. As a result, inconsistent recognition, measurement and disclosure practices have developed. There is concern that recorded and disclosed information on financial instruments is inadequate to enable users of financial statements to understand fully the financial effects of a government's use of financial instruments.

Accordingly, PSAB approved a project on financial instruments and set up a task force to manage the project. The main objective of the project is to develop standards that will make reporting by governments on the use of financial instrument derivatives as transparent and understandable as possible.

In January 2006, PSAB issued Guideline PSG-6, *Including Results of Organizations and Partnerships Applying Fair Value Measurement*. PSAB also approved a Statement of Principles (SOP) for the recognition and measurement of derivatives for comment by Associates.

In June 2006, PSAB requested information from interested parties on aspects of hedging risks faced by governments. Submissions were to be received by August 18, 2006. PSAB will consider the responses and build on the first SOP in developing a second SOP. This SOP will consider hedge accounting and measurement of non-derivative financial instruments.

Status: The second Statement of Principles is expected to be approved in March 2007.

New Accounting Handbook Sections Affecting Financial Reporting for Entities in the Public Sector

In addition to the changes to public sector accounting by PSAB that affect the Public Accounts of the government, there are changes in the *CICA Accounting Handbook* that directly affect its government business enterprises, government business-type enterprises and not for profit organizations in the public sector. The following is a brief discussion of accounting developments in the *CICA Accounting Handbook* that we believe are significant to organizations in the public sector.

Financial Instruments

The major change in Canadian generally accepted accounting standards (GAAP) for organizations in the public sector is standards for financial instruments.

In April 2005, the CICA issued new financial instrument standards. Although the standards do not apply to governments, they will be applicable to government business enterprises, government business-type enterprises and not for profit organizations for the purposes of preparing their financial statements. The new standards are effective for fiscal years beginning on or after October 1, 2006.

In many cases there will be little change from the current accounting for financial instruments. If an organization has no financial instruments other than cash, accounts receivable, accounts payable and arm's length debt, there should be no change in accounting for these instruments. The standards will have the greatest impact on those entities using the capital markets for financing or investing purposes or for entities hedging their financial risks.

The new standards are detailed in three *CICA Accounting Handbook* sections:

- **Financial Instruments** - Recognition and Measurement (Section 3855)
  This section establishes standards for recognizing and measuring financial instruments on the balance sheet. This section also specifies how to treat gains and losses on financial instruments. This section will apply to all entities to some extent.
- **Hedges** (Section 3865)
  This section details standards for when hedge accounting may be applied. Application of this section is optional. It provides alternate treatments to Section 3855 when an entity designates a financial instrument as a hedge.
- **Comprehensive Income** (Section 1530)
  This section sets out standards for reporting comprehensive income. This section introduces new requirements for situations when you must temporarily present certain gains and losses outside net income.

Financial Instruments – Recognition and Measurement (Section 3855)

Financial instruments must be classified, recorded and measured in one of the categories described below. Reclassification is rarely possible so it is important to understand the implications where a choice is available.

Financial assets and financial liabilities held-for-trading
The financial instruments in this category can be characterized as those an entity buys and sells for the purpose of making a profit. It includes almost all derivatives. An entity can also designate any financial instrument whose fair value can be reliably measured in this category when it is first recognized.

The initial recording of the held-for-trading financial assets and financial liabilities is at fair value, subsequent measurement is also at fair value.

Gains and losses are recognized in net income in the period in which they arise.

Held-to-maturity investments
These are financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intent and ability to hold to maturity, that is, only debt instruments. An entity must be careful in allocating financial assets to this category because if there are significant sales prior to maturity, then an entity must reclassify all financial assets in your portfolio to "available-for-sale". The exception to the preceding is if the sale was outside your control.

The initial recording of the held-for-maturity investments is at fair value but subsequent measurement is at amortized cost.

Gains and losses are recognized in net income as the financial instruments are amortized and when the financial instruments are derecognized or impaired.

Loans and receivables
This category includes all loans and receivables except debt securities.

The initial recording of the loans and receivables is at fair value but subsequent measurement is at amortized cost.

Gains and losses are recognized in net income as the financial instruments are amortized and when the financial instruments are derecognized or impaired.

Available-for-sale financial assets are those financial assets that are not classified as loans and receivables, held-to-maturity investments, or held for trading. Investments in equity instruments may be classified only as "available-for-sale".

The financial assets in this category are measured at fair value. If the equity investments, or derivatives based on them, can not be reliably measured at fair value then they are measured at cost.

Gains and losses, except for impairment losses, are recognized directly in other comprehensive income until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in accumulated other comprehensive income would be recognized in net income for the period.

Other financial liabilities
These comprise financial liabilities that are not classified as "held-for-trading".

The initial recording is at fair value but subsequent measurement is at amortized cost.

Gains and losses recognized in net income as the financial instruments are amortized and when the financial instruments are derecognized or impaired.

The classification and measurement of Financial Instruments is illustrated in the following **Figure 24**.

FIGURE 24

Summary of Requirements for Measurement and Recognizing Gains and Loss

	Category	Initial Measurement	Subsequent Measurement	Gains and Losses
Assets	Loans and receivables	Fair value	Amortized cost using the effective interest method	Recognized in net income when the asset is derecognized; impairment write-downs and foreign exchange translation adjustments recognized immediately in net income
	Held-to-maturity investments			
	Available-for-sale financial assets	Fair value	Fair value*	Recognized in other comprehensive income; transferred to net income when the asset is derecognized; impairment write-downs recognized immediately in net income
	Held for trading	Fair value	Fair value	Recognized immediately in net income
Liabilities	Other	Fair value	Amortized cost using the effective interest method	Recognized in net income when the liability is derecognized; foreign exchange translation adjustments recognized immediately

*Equity instruments that do not have a quoted market price in an active market are measured at cost.

Source: CICA Financial Instruments "Navigating New Waters".

Hedges (Section 3865)

Because hedge accounting is optional, an entity must designate and document a hedging relationship prior to applying hedge accounting. The designation and documentation requirements are similar to the former CICA Accounting Guideline #13 (AcG-13).

Section 3855 defines two types of hedges - fair value and cash flow hedges - and prescribes the accounting treatment for each.

A fair value hedge is a hedge of the exposure to changes in fair value of all or a portion of a recognized asset or liability or previously unrecognized firm commitment attributable to a specified risk. An example might be a fixed rate debt instrument which you hedge with an interest rate swap that effectively converts fixed interest payments to floating.

In a fair value hedge, the hedging item is measured at fair value with gains and losses recognized immediately in net income. The changes in the fair value of the hedging item, to the extent they are attributable to the risk designated as being hedged, are simultaneously recognized in income, with corresponding adjustments to carrying amount of the hedged item. The relationship must be effective both at its inception and through its term. To be effective, changes in the hedged item must offset changes in the fair value of the hedging item.

A cash flow hedge is a hedge of the exposure to variability in cash flows of a recognized asset or liability or a forecasted transaction attributable to a specific risk or variability in cash flows of a firm commitment attributable to foreign currency risk. An entity might use a cash flow hedge when you want to lock in achieve the effect of locking in a future variable cash flow. Examples of this are:

- hedge of the foreign currency risk in future purchases or sales; and

- hedge of a floating rate debt with an interest rate swap to lock in a stream of fixed cash flows.

In a cash flow hedge, there is no change in the measurement of the gain or loss of the hedged item. However, the portion of the gain or loss of the hedging considered to be effective is recorded in other comprehensive income and recognized in net income in the same period as the hedged item effects income. Any ineffective portion is recognized immediately in net income.

Comprehensive Income (Section 1530)

Comprehensive income is the change in equity (net assets) of an entity during a period resulting from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Other comprehensive income comprises revenues, expenses, gains and losses that are required by primary sources of GAAP to be included in comprehensive income, but excluded from net income. Other comprehensive income is presented as a component of equity on the balance sheet. The changes in other comprehensive income would be disclosed in the financial statements.

A statement of comprehensive income would be presented in the financial statements. Net income and each component to be recognized in other comprehensive income would be presented.

Transition

The new standards must be applied for financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted.

Any adjustments to the carrying amounts, on initial adoption of the new standards, are recognized as adjustments to opening retained earnings with a couple of exceptions. These exceptions are assets classified as available-for-sale and amounts previously deferred in respect of cash flow hedges which will be redesignated as new cash flow hedges – the adjustments will recognized in other comprehensive income. An entity does not restate its financial statements for periods prior to implementation of the standards.

New Exposure Draft on Financial Instrument Disclosures and Capital Disclosures

In addition to the new standards, the CICA Accounting Standards Board issued an Exposure Draft Financial Instrument Disclosures and Capital Disclosures proposing to enhance financial instrument disclosure and to harmonize Canadian standards with international standards. Comments on the Exposure Draft were to be submitted by June 2006.

Accounting Changes - Section 1506

Section 1506, *Accounting Changes,* has been revised to be consistent with international standards. The new standards establish criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors.

The main features of the new Section are:

- Voluntary changes in accounting policy are only made if they result in the financial statements providing reliable and more relevant information.
- Changes in accounting policy are applied retrospectively unless doing so is impracticable, or the change in accounting policy is made on initial application of a primary source of GAAP in accordance with specific transitional provisions in that primary source of GAAP. A change in accounting estimate is generally recognized prospectively.
- Material prior period errors are corrected retrospectively (i.e., retroactively).
- New disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

The Section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007. Earlier adoption is encouraged.

New CICA Assurance (Auditing) Standards Affecting Audits in the Public Sector

The new *CICA Auditing and Assurance Handbook* sections highlighted below have a potential affect on generally accepted auditing standards (GAAS) for auditing the public sector in Manitoba.

Subsequent Events - Section 6550

Section 6550 Subsequent Events has been revised to be consistent with international standards and the concepts of reasonable assurance and audit risk. This section has been expanded to:

- refer specifically to the need of the auditor to gain an understanding of the management's procedures for identifying subsequent events;
- provide additional examples of an auditor's enquiries of management; and
- note that an auditor is not expected to continue reviewing items where previously applied procedures have resulted in a satisfactorily conclusion.

The recommendations are effective for audits of financial statements with periods commencing on or after January 1, 2006.

Documentation - Section 5145

Section 5145 Documentation has been revised to provide guidance and new standards for documentation of a financial statement audit. The new section requires:

- the auditor to document:
    - significant issues and findings in an engagement completion document;
    - audit evidence that an auditor has identified as contradictory or inconsistent with the final conclusions and how the auditor addressed the contradiction or inconsistency; and
    - identifying characteristics of specific items tested during the audit;
- assembly and completion of the final audit file within 45 days after the date of the auditor's report is issued;
- use of an experienced auditor as a point of reference for assessing the adequacy of documentation; and
- identification of the preparer and reviewer of audit documentation.

The recommendations are effective for audits of financial statements with periods commencing on or after November 1, 2006.

Legislative Auditor's Report on Financial Statements of a Federal Provincial or Territorial Government Guideline (AuG-45)

This guideline was issued in April 2006. It provides guidance on the wording of the auditor's report when the legislative auditor is required by mandate to express an opinion on whether the summary financial statements of the government are in accordance with stated accounting policies. In order for this guideline to apply, the stated accounting policies of the government's summary financial statements have to be in accordance with generally accepted accounting principles for the public sector set by PSAB.

The opinion on whether the summary financial statements of the government are in accordance with stated accounting policies, and any reservations of opinion on the accounting policies, are required at the end of the opinion paragraph. The guideline provides suggested wording.

Audit Risk – Various Sections

A number of sections of the *CICA Assurance and Auditing Standards Handbook* have been updated to harmonize Canadian standards with international auditing standards. Fundamentally, the current risk-based approach to auditing in Canada has not changed. However, there are changes related to the auditor's understanding of the entity and its internal control in order to improve the auditor's risk assessments and to better link assessed risks of material misstatement to the auditor's evidence gathering procedures.

The revision to the Handbook includes new and revised standards for defining the concepts of reasonable assurance and audit risk, understanding the entity and its environment, including internal control, assessing the risks of material misstatement, and designing audit procedures that are responsive to assessed risks and for audit evidence.

The new standards identify specific requirements for understanding the entity, its environment and business risks relevant to the financial statements. The auditor must obtain an understanding of the design and implementation of controls. The auditor must also obtain an understanding of the entity's risk assessment and its monitoring of controls.

There are clear requirements for an auditor to assess the risk of material misstatement at the financial statement level and the assertion level. Audit procedures must be linked to the assertions.

Tests of control must be completed to support the assessment a control risk assessment below maximum. In some situations tests of controls must be completed – only completing substantive tests is not sufficient.

The new requirements are all to be applied at the same time and are effective with respect to financial statements and financial reports for periods beginning on or after January 1, 2006.

Audit of Policy Liabilities of Insurance Companies Guideline (AuG-43)

This guideline is part of the project to revise guidance relevant to the auditor's use of the work of an actuary as audit evidence.

Audit of Policy Liabilities of Insurance Companies Guideline (Aug-43) was released in December 2005. The key principles of AuG-43 are as follows:

- The audit engagement team requires actuarial specialist involvement.
- The entity's appointed actuary is precluded from filling the role of the actuarial specialist on the engagement team in almost all circumstances because the appointed actuary has determined the liabilities that are the subject of the audit. This applies whether the appointed actuary is a consultant or employee of the insurance enterprise.
- Independence of the audit function requires that an actuary other than the appointed actuary examine the liabilities as part of the audit engagement team, to provide corroborative audit evidence. In order to satisfy the requirements of the audit risk model, the auditor will normally assess and test controls, review assumptions for reasonableness, and perform some tests of calculations and models involving recomputation, as well as the traditional reviews of results.

The new guideline will be effective for engagements concerning financial statements and financial reports for periods commencing on or after January 1, 2006.

Also, as part of the project on the auditor's use of the work of an actuary as audit evidence, an Exposure Draft was issued with comment deadline of December 1, 2006. The exposure draft includes the key principles mentioned above when using an actuary as audit evidence. The principles will also apply to pension plan audits.

APPENDICES

SUMMARY FINANCIAL STATEMENTS - AUDITOR'S REPORT

Appendix A

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT
On the Summary Financial Statements for the Government Reporting Entity
Province of Manitoba

To the Legislative Assembly of the Province of Manitoba

I have audited the summary statement of financial position of the Province of Manitoba as at March 31, 2006 and the summary statements of revenue and expense, accumulated deficit, change in net debt and cash flow for the year then ended. These financial statements are the responsibility of the Government of Manitoba. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Reservation
As explained in the Note 1 A to these financial statements, the Province of Manitoba's accounting policies contain an exception to Canadian generally accepted accounting principles, related to the inclusion of public school divisions. The effects of the non-consolidation of public school divisions on the reported assets, liabilities, revenues and expenses, and the information provided by way of notes to the financial statements cannot be determined.

Opinion
In my opinion, except for the effects of the inability to consolidate the assets, liabilities and the operating results of public school divisions, these Summary Financial Statements for the Government Reporting Entity present fairly, in all material respects, the financial position of the Province of Manitoba as at March 31, 2006 and the results of its operations and its cash flow for the year then ended, in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Bonnie Lysyk

Winnipeg, Manitoba
July 31, 2006

Bonnie J. Lysyk, MBA, CA•CIA
Deputy Auditor General

Manitoba

Appendix B

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

STATEMENT OF RESPONSIBILITY

The Summary Financial Statements are prepared under the direction of the Minister of Finance in accordance with the stated accounting policies of the Government reporting entity and include summary statements of financial position, revenue and expense, accumulated deficit, change in net debt, cash flow, notes and schedules integral to the statements. Together, except as stated in Note 1A to the Summary Financial Statements, they present fairly, in all material respects, the financial condition of the Government reporting entity at the fiscal year end and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

The Government is responsible for the integrity and objectivity of the Summary Financial Statements. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets, liabilities, revenues and expenses is dependent on future events. The Government believes such estimates have been based on careful judgements and have been properly reflected in the Summary Financial Statements.

The Government fulfills its accounting and reporting responsibilities, through the Office of the Provincial Comptroller, by maintaining systems of financial management and internal control. The systems are continually enhanced and modified to provide timely and accurate information, to safeguard and control the Government's assets, and to ensure all transactions are in accordance with the Financial Administration Act.

The Auditor General expresses an independent opinion on these financial statements. Her report, stating the scope of her audit and opinion, appears on the following page. The audit opinion for the 2005/06 financial statements was signed by the Deputy Auditor General.

These financial statements are tabled in the Legislature. They are referred to the Standing Committee on Public Accounts, which reports to the Legislature on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinion.

On behalf of the Government of the Province of Manitoba.

Betty-Anne Pratt

Ewald Boschmann
Deputy Minister of Finance

Betty-Anne Pratt
Provincial Comptroller

July 31, 2006

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B
(cont'd.)

SUMMARY STATEMENT OF FINANCIAL POSITION

As at March 31, 2006

SCHEDULE		($ millions) 2006	($ millions) 2005
	FINANCIAL ASSETS		
	Cash and cash equivalents (Note 2)	1,088	1,137
	Temporary investments (Note 2)	323	267
1	Amounts receivable	900	900
	Inventories	40	36
	Prepaid expense	22	19
	Portfolio investments (Note 3)	608	545
2	Loans and advances	585	626
3	Equity in Government business enterprises (Note 5)	1,740	1,224
4	Other long-term investments	4	4
	Total Financial Assets	5,310	4,758
	LIABILITIES		
5	Borrowings	18,559	18,390
	Less: Sinking funds (Note 6)	(2,739)	(2,729)
	Less: Debt incurred for and repayable by the Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	(6,276)	(6,215)
		9,544	9,446
	Less: Unamortized foreign currency fluctuation	(79)	(84)
	Net borrowings	9,465	9,362
6	Accounts payable, accrued charges, provisions and deferrals	2,397	2,305
	Pension liability (Note 12)	3,967	3,761
	Total Liabilities	15,829	15,428
	NET DEBT	(10,519)	(10,670)
	NON-FINANCIAL ASSETS (Note 1D.13)		
7	Tangible capital assets	4,170	3,915
	ACCUMULATED DEFICIT	(6,349)	(6,755)

Information concerning the Government's Guarantees, Contractual Obligations, Contingencies and Treaty Land Entitlement Obligations can be found in Notes 7, 8, 9 and 10.

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

SUMMARY STATEMENT OF REVENUE AND EXPENSE

For the Year Ended March 31, 2006

	($ millions) 2006	($ millions) 2005
REVENUE		
Manitoba Collections:		
Retail sales tax	1,198	1,125
Fuel taxes	236	235
Levy for health and education	303	287
Mining tax	39	41
Other taxes	509	531
Fees and other revenue	2,057	1,842
Income taxes:		
Corporation income tax	373	402
Individual income tax	1,949	1,842
Net income from Government business enterprises (Schedule 3)	958	679
Federal transfers:		
Equalization	1,601	1,699
Canada Health and Social Transfers	1,108	1,045
Health Reform Fund	-	55
Bill C-48	49	-
Shared cost and other	345	357
TOTAL REVENUE	10,725	10,140
EXPENSES		
Health	3,849	3,560
Education	2,366	2,309
Family Services and Housing	1,075	1,020
Community, Economic and Resource Development	1,448	1,169
Justice and Other Government	822	755
Debt Servicing (Note 16)	790	765
TOTAL EXPENSES (Schedule 11)	10,350	9,578
SUMMARY NET INCOME (Schedule 9)	375	562

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B

(cont'd.)

SUMMARY STATEMENT OF ACCUMULATED DEFICIT

For the Year Ended March 31, 2006

	($ millions)	
	2006	**2005**
Opening accumulated deficit, as previously reported	(6,707)	(7,334)
Restatements (Note 4)	(48)	(48)
Opening accumulated deficit, as restated	(6,755)	(7,382)
Other Comprehensive Income (Note 4)	31	65
Summary net income for the year	375	562
Closing accumulated deficit, as restated	(6,349)	(6,755)

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

SUMMARY STATEMENT OF CHANGE IN NET DEBT

For the Year Ended **March** 31, **2006**

	($ millions)	
	2006	**2005**
Annual Surplus	375	562
Acquisition of Tangible Capital Assets	(531)	(426)
Amortization of Tangible Capital Assets	266	254
Disposal of Tangible Capital Assets	10	4
	(255)	(168)
Other Comprehensive Income (Note 4)	31	65
Decrease in Net Debt	151	459
Net Debt, beginning of year	(10,670)	(11,129)
Net Debt, end of year	(10,519)	(10,670)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B
(cont'd.)

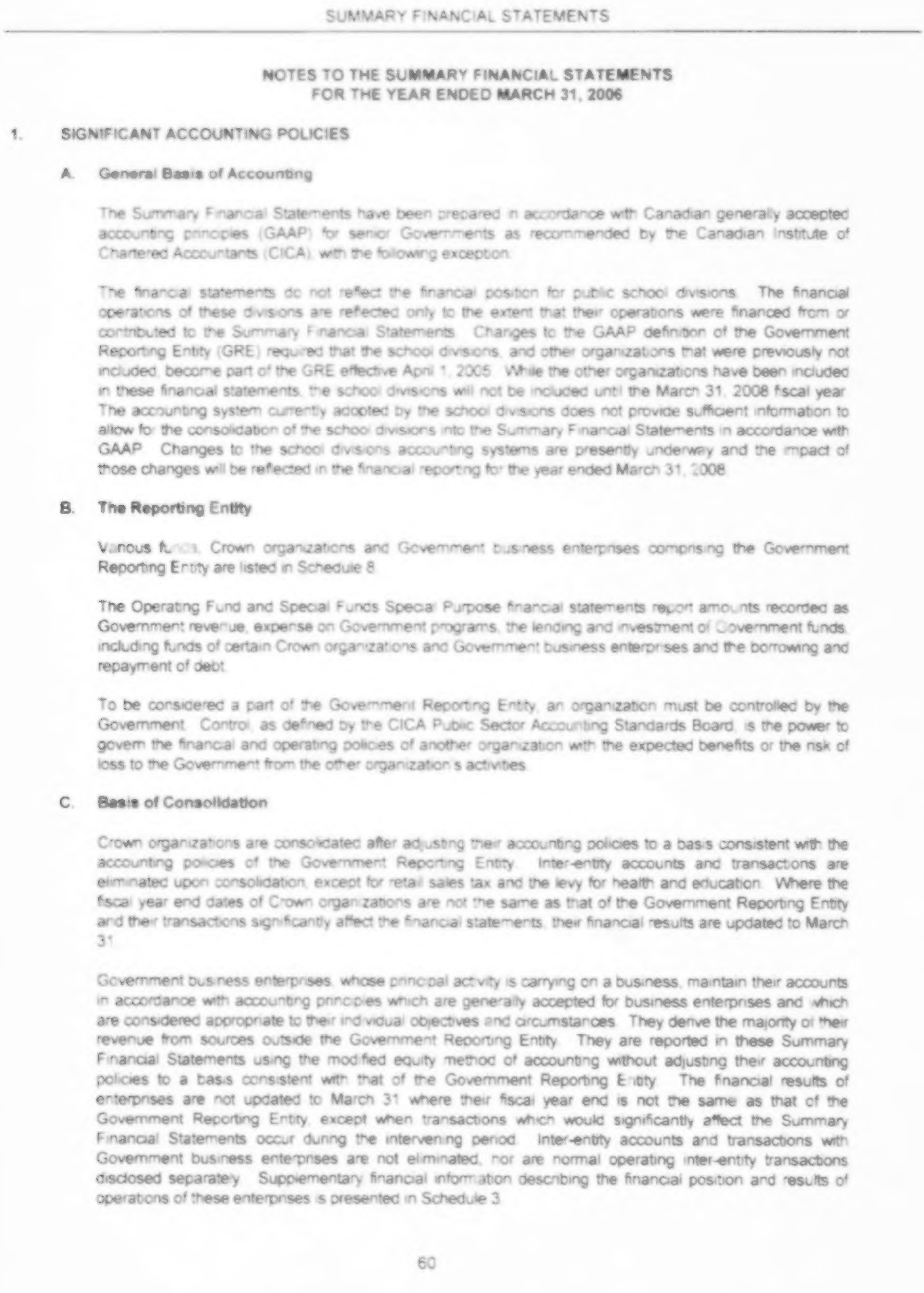
SUMMARY STATEMENT OF CASH FLOW

For the Year Ended March 31, 2006

	($ millions) 2006	2005
Cash and cash equivalents provided by (used in)		
Operating activities:		
Summary net income for the year	375	562
Changes in non-cash items:		
Temporary investments	(56)	(60)
Amounts receivable	20	(124)
Valuation allowance	(31)	4
Inventories	(4)	2
Prepaids	3	-
Portfolio investments	(63)	(156)
Accounts payable, accrued charges, provisions and deferrals	92	117
Pension liability	206	190
Amortization of foreign currency fluctuation	5	6
Amortization of debt discount	7	8
Amortization of investment discounts and premiums	2	(1)
Workers Compensation Board Investment premium	-	28
Other Comprehensive Income	31	37
Disposal of tangible capital assets	10	4
Amortization of tangible capital assets	266	254
	863	871
Changes in equity in Government business enterprises	(516)	(286)
Cash provided by operating activities	347	585
Tangible capital assets		
Acquisition of tangible capital assets	(531)	(426)
Cash used in capital activities	(531)	(426)
Investing activities:		
Made	(590)	(584)
Realized	499	140
Cash used in investing activities	(91)	(444)
Financing activities:		
Debt issued	2,901	2,671
Debt redeemed	(2,777)	(2,180)
Changes in sinking funds	102	197
Cash provided by financing activities	226	688
Increase (decrease) in cash and cash equivalents	(49)	403
Cash and cash equivalents, beginning of year	1,137	734
Cash and cash equivalents, end of year	1,088	1,137

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"



NOTES TO THE SUMMARY FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

1. SIGNIFICANT ACCOUNTING POLICIES

A. General Basis of Accounting

The Summary Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for senior Governments as recommended by the Canadian Institute of Chartered Accountants (CICA), with the following exception.

The financial statements do not reflect the financial position for public school divisions. The financial operations of these divisions are reflected only to the extent that their operations were financed from or contributed to the Summary Financial Statements. Changes to the GAAP definition of the Government Reporting Entity (GRE) required that the school divisions, and other organizations that were previously not included, become part of the GRE effective April 1, 2005. While the other organizations have been included in these financial statements, the school divisions will not be included until the March 31, 2008 fiscal year. The accounting system currently adopted by the school divisions does not provide sufficient information to allow for the consolidation of the school divisions into the Summary Financial Statements in accordance with GAAP. Changes to the school divisions accounting systems are presently underway and the impact of those changes will be reflected in the financial reporting for the year ended March 31, 2008.

B. The Reporting Entity

Various funds, Crown organizations and Government business enterprises comprising the Government Reporting Entity are listed in Schedule 8.

The Operating Fund and Special Funds Special Purpose financial statements report amounts recorded as Government revenue, expense on Government programs, the lending and investment of Government funds, including funds of certain Crown organizations and Government business enterprises and the borrowing and repayment of debt.

To be considered a part of the Government Reporting Entity, an organization must be controlled by the Government. Control, as defined by the CICA Public Sector Accounting Standards Board, is the power to govern the financial and operating policies of another organization with the expected benefits or the risk of loss to the Government from the other organization's activities.

C. Basis of Consolidation

Crown organizations are consolidated after adjusting their accounting policies to a basis consistent with the accounting policies of the Government Reporting Entity. Inter-entity accounts and transactions are eliminated upon consolidation, except for retail sales tax and the levy for health and education. Where the fiscal year end dates of Crown organizations are not the same as that of the Government Reporting Entity and their transactions significantly affect the financial statements, their financial results are updated to March 31.

Government business enterprises, whose principal activity is carrying on a business, maintain their accounts in accordance with accounting principles which are generally accepted for business enterprises and which are considered appropriate to their individual objectives and circumstances. They derive the majority of their revenue from sources outside the Government Reporting Entity. They are reported in these Summary Financial Statements using the modified equity method of accounting without adjusting their accounting policies to a basis consistent with that of the Government Reporting Entity. The financial results of enterprises are not updated to March 31 where their fiscal year end is not the same as that of the Government Reporting Entity, except when transactions which would significantly affect the Summary Financial Statements occur during the intervening period. Inter-entity accounts and transactions with Government business enterprises are not eliminated, nor are normal operating inter-entity transactions disclosed separately. Supplementary financial information describing the financial position and results of operations of these enterprises is presented in Schedule 3.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B
(cont'd.)

D. Basis of Specific Accounting Policies

Government of Canada Receipts

Transfer payments from the Government of Canada include all accruals determined before June 15 each year for current year entitlements that have been authorized by March 31st, that can be reasonably estimated and for which any eligibility criteria have been met.

The Province's share of individual and corporation income tax is recorded based upon cash receipts to March 31 plus an accrual of adjustments determined before June 15 each year.

Other Revenue

All other revenues are recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Expenses

All expenses incurred for goods or services received are recorded on an accrual basis. Exceptions to this policy involve the acquisition of inventories acquired for the Government's use that are reflected as expenses when incurred.

Expenses include provisional amounts recorded in anticipation of costs which are quantifiable and have been identified as obligations. Government transfers are recognized as expenses in the period during which the transaction is authorized and any eligibility criteria are met.

Gross Accounting Concept

Revenues and expenses are recorded in gross amounts with the following exceptions:

1) Refunds of revenue are treated as reductions of current year revenue.

2) Decreases in valuation allowances previously provided are treated as reductions to expense.

3) Recoveries of the debt servicing costs on self-sustaining debt of Government business enterprises are recorded as a reduction of debt servicing expense.

Liabilities and Assets

1) All borrowings are expressed in Canadian dollars and are shown net of sinking funds, unamortized debt issue costs and debt of the Province of Manitoba held as provincial investments. Foreign borrowings are converted at the exchange rate in effect at March 31 adjusted for any forward foreign exchange contract entered for settlement after the fiscal year end. Discounts or premiums, and commissions incurred at the time of the issue of debt are amortized monthly to debt servicing expense over the term of the debt.

2) The amount of the pension liability is based on actuarial calculations. When actual experience varies from actuarial estimates, the adjustments needed are amortized over the expected average remaining service life of the employee groups.

3) The amount of the liabilities for severance, Long Term Disability Income Plan liability and workers compensation claims is based upon actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations because actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

4) The year end translation adjustments reflecting the foreign currency fluctuation from the value at the issue date are recorded through the unamortized foreign currency fluctuation account and amortized monthly to debt servicing expense over the remaining term of the debt. The unamortized portion of foreign currency fluctuation also reflects the gains or losses on the conversion of foreign currency debt called prior to maturity using the rates in effect at the time of the call and these gains and losses are amortized over the original remaining term of the debt or over the term of the replacement issue, whichever is shorter.

5) Loans, advances and long-term investments are recorded at cost less valuation allowances. A valuation allowance is provided to reduce the value of the assets to their estimated realizable value or to reflect the impact of significant concessionary terms on outstanding loans. Valuation allowances are made when the collection is considered doubtful or when the value of the investment is impaired. Premiums that may arise from the early repayment of loans or advances are reflected as deferred revenue and are amortized monthly to debt servicing expense over the term of the related debt issue.

6) Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward foreign exchange contract fixing the value has been negotiated, in which case that rate or amount is used. The year end investment translation adjustments reflecting the foreign currency fluctuation between year ends are amortized monthly over the remaining life of the investment and included with debt servicing expense. Expenses and other transaction charges incurred on the purchase of investments during the year are charged to debt servicing expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

7) Premiums paid on interest rate options are amortized monthly starting from the date the income is received over the period of the applicable agreement. If the option is exercised, the premium is amortized over the period from the date of receipt to the maturity date of the agreement. If the option is not exercised, any unamortized premium will be immediately taken into revenue.

8) Inventories held for resale are recorded at the lower of cost and net realizable value.

9) The cost of tangible capital assets purchased includes the purchase price as well as costs such as installation costs, design and engineering fees, survey and site preparation costs and other costs incurred to put the asset in service. The cost of tangible capital assets constructed by the Province include all direct construction costs such as materials, labour, design, installation, engineering, architectural fees, and survey and site preparation costs, as well as overhead costs directly attributable to the construction activity such as licenses, inspection fees, indirect labour costs, and amortization expense of any equipment which was used in the construction project. Any carrying cost associated with the development and construction of tangible capital assets is included for projects whose cost exceeds $20 million.

A tangible capital asset received as a donation is recorded at its fair market value with the same amount being shown as a deferred revenue which is amortized to revenue on the same basis as the asset is amortized. Where the acquisition cost of a tangible capital asset is shared with other jurisdictions under a shared cost agreement, such contributions are deducted from the cost of the related asset with any amortization calculated on the net amount. Certain assets which have historical or cultural value including works of art, historical documents as well as historical and cultural artifacts are not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made. Intangible assets and items inherited by right of the Crown, such as Crown lands, forests, water and other mineral resources are not recognized in Government financial statements.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B
(cont'd.)

10) Tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

General Tangible Assets:	
Land	Indefinite
Buildings and Leasehold Improvements	
Buildings	25 to 40 years
Leasehold improvements	Life of lease
Vehicles and Equipment	
Vehicles	5 years
Aircraft and vessels	5 to 24 years
Machinery, equipment and furniture	10 years
Maintenance and road construction equipment	15 years
Computer hardware and software	4 to 15 years
Infrastructure Assets	
Land	Indefinite
Land Improvements	30 years
Transportation	
Bridges and Structures	40 years
Provincial Highways, Roads and Airstrips	10 to 40 years
Dams and Water Management Structures	40 years

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available to be put into service.

11) During the 2000/01 fiscal year, the Federal Government created a Health Equipment and Infrastructure Fund for investment in new medical equipment. The Province's share of this fund was $37 million. Funding from the Health Equipment and Infrastructure Fund has been treated as deferred revenue and will be brought into revenue based on actual purchases of equipment according to a defined schedule.

During the 2002/03 fiscal year, the Federal Government created a Diagnostic and Medical Equipment Fund for investment in new medical equipment. The Province's share of this fund was $54 million. Funding from the Diagnostic and Medical Equipment Fund has been treated as deferred revenue and will be brought into revenue based on actual purchase of equipment according to a defined schedule.

12) Guarantees by the Government are made through specific agreements or legislation to repay promissory notes, bank loans, lines of credit, mortgages and other securities. Provision for losses on guarantees are recorded when it is likely that a loss will occur. The amount of the loss provision represents the Government's best estimate of future payments less recoveries.

13) In the public sector, recognition and measurement of tangible capital and other non-financial assets are based on their service potential. Generally, such assets do not generate future net cash inflows. Therefore, these assets will not provide resources to discharge the liabilities of the Government. For non-financial assets, the future economic benefit consists of their capacity to render service to fulfill the Government's objectives.

14) Effective for the 2005/06 fiscal year, the Government adopted an accounting policy regarding the recognition and measurement of environmental liabilities. An environmental liability for contaminated sites is recorded when contamination is identified, and when the Government is obligated or likely to become obligated to incur remediation costs due to reasons of public health and safety, contractual arrangements, or compliance with environmental standards which are set out in any act or regulation (federal, provincial, municipal) recognized by the Government. The liability is based upon remediation costs determined on a site-by-site basis, measured as incremental direct costs, reduced by estimated recoveries from third parties, and discounted where possible to reflect the time value of money.

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

For past liabilities arising from contaminations or obligating events on or before March 31, 2005, there is a transition period (April 1, 2006 to March 31, 2009) to identify and record such liabilities. These liabilities will be recorded as an increase to the accumulated deficit until March 31, 2009. Subsequent to that, any past liability not previously recorded or sufficiently provided for will be recorded as an expense.

For liabilities arising from contaminations or obligating events after March 31, 2005, the amounts are recorded as an expense when identified.

E. Measurement Uncertainty

Estimates are used to accrue revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable possible amount, as there is whenever estimates are used.

Measurement uncertainty in these financial statements exist in the accrual of individual, corporate income taxes, Health Transfers and Canada Social Transfer entitlements, Federal Government transfers under Bill C-48, accruals for pension obligations, accruals for environmental obligations and allowances for doubtful loans and advances and provision for losses on guarantees.

The nature of the uncertainty related to the accrual of health and social transfer payments from the Federal Government and individual and corporate income taxes arises because of the possible differences between the estimates for the economic factors used in calculating the accruals and actual economic results. Uncertainty related to Federal Government transfers under Bill C-48 relates to the ultimate determination of the transfer amounts being dependent upon audited current year financial results of the Federal Government. Dependent upon these final results, the transfer that the Province is eligible for could range from $0 to $98 million (recorded $49 million as current year's revenue). The uncertainty related to accruals for pension obligations arises because actual results may differ significantly from the Province's best estimates of expected results based on variables such as earnings on the pension investments, salary increases and the life expectancy of claimants. The uncertainty related to the accrual of environmental obligations is based upon the identification of all sites where environmental damages have occurred that are the Province's responsibility to mitigate and the quantification of what the actual liability will be based upon impact studies. Uncertainty concerning the allowance for doubtful loans and advances is based upon actual collectibility and changes in economic conditions.

While management's best estimates have been used for reporting items subject to measurement uncertainty, it is possible that changes in future conditions in the near term could require a material change in the valuation of the reported amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

2. CASH AND TEMPORARY INVESTMENTS

Cash equivalents included in cash are recorded at cost. Market values approximate cost. Investment revenue earned during the year was $34 million (2005 - $35 million).

Temporary investments are recorded at the lower of cost and market value. As at March 31, 2006, the cost of temporary investments was $323 million (2005 - $267 million) with a market value of $323 million (2005 - $267 million). Investment revenue earned on the temporary investments funds during the year was $20 million (2005 - $12 million).

3. PORTFOLIO INVESTMENTS

Portfolio investments are recorded at the lower of cost and net realizable value. As at March 31, 2006, the carrying value of portfolio investments was $608 million (2005 - $545 million). Portfolio investments earned $64 million during the year (2005 - $58 million).

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B
(cont'd.)

Portfolio investments include amounts invested with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. These investments represent funds set aside for the future retirement of the pension liability. These investments earn the respective Fund's annual rate of return and reflect both the realized gains (losses) on sale of investments and unrealized market gain (loss) for the year. Investment income earned for the year was $61 million (2005 - $30 million). The fair value of these investments as at March 31, 2006 was $537 million (2005 - $382 million). These Funds are balanced funds and the investments consist primarily of cash equivalents, equities, bonds, mortgages and real estate.

4. ADJUSTMENTS TO ACCUMULATED DEFICIT

In the March 31, 2006 fiscal year, restatements to the March 31, 2005 accumulated deficit and net income for the year were made to apply changes in accounting policies and due to correction of errors.

Adjustments were made to the opening accumulated deficit for the March 31, 2005 fiscal year to recognize the impact of changing accounting policies. These adjustments were made to recognize environmental liabilities ($142 million increase) and to recognize the liability associated with the recognition of prepaid expense in accordance with changes to public sector accounting standards ($19 million decrease).

Adjustments were made to the opening accumulated deficit for the March 31, 2005 fiscal year to apply changes due to correction of errors. An adjustment was made to recognize the liability associated with certain tax refunds that had not been identified and corrected in the 2005 fiscal year ($6 million increase).

Adjustments were made to the opening accumulated deficit for the March 31, 2005 fiscal year to account for the inclusion of eight additional entities into the Government Reporting Entity in accordance with changes to public sector accounting standards ($93 million decrease). These entities included; Collège universitaire de Saint-Boniface, First Nations of Northern Manitoba Child and Family Services Authority, First Nations of Southern Manitoba Child and Family Services Authority, Metis Child and Family Services Authority, Sport Manitoba Inc., St. Amant Centre Inc. (a component of the Winnipeg Regional Health Authority), Tire Stewardship Board and the University of Winnipeg.

In the March 31, 2006 fiscal year the Manitoba Public Insurance Corporation changed its accounting policies on the recognition of pension plan experience gains to recognize these gains and losses in the year in which they occur. Previously the policy was to amortize these gains and losses over the expected average remaining service life of the employee group. As a result of this change, the accumulated deficit for March 31, 2005 increased by $12 million.

The net effect of these adjustments is a $48 million increase to March 31, 2005 opening accumulated deficit.

In the March 31, 2005 fiscal year, the Workers Compensation Board elected to change its accounting policies on the recognition of gains and losses (other comprehensive income) in accordance with changes to accounting standards on the recognition of these gains and losses. As a result of this change the accumulated deficit for March 31, 2005 decreased by $28 million. In the March 31, 2006 fiscal year, the Government adopted the policy to recognize this other comprehensive income as a charge to the accumulate deficit in accordance with new public sector accounting policy standards. The net effect of these changes is a $37 million decrease to the March 31, 2005 summary net income. The net effect of these adjustments is a $65 million increase to the March 31, 2005 accumulated deficit.

5. EQUITY IN GOVERNMENT BUSINESS ENTERPRISES

The category definitions are as follows:

Utility
An enterprise which provides public utility services for a fee.

Insurance
An enterprise which provides insurance coverage services to the public for a fee.

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Finance:

Enterprises which provide regulatory control and are revenue generating, or enterprises which use economy of scale to deliver goods and services to non-government clients.

Resource Development:

Enterprises charged with the development of various industries and/or the delivery of various goods and services which will assist the provincial economy.

Included in the equity in Government business enterprises are equities which are restricted for use by provincial legislation and thereby not available to discharge Government liabilities or to finance other Government programs.

Equity in Government business enterprises is comprised of:

	($ millions)	
	2006	2005
Restricted Equity in Government Business Enterprises:		
Manitoba Hydro-Electric Board	1,285	870
Manitoba Public Insurance Corporation	260	212
Workers Compensation Board	184	131
	1,729	1,213
Unrestricted Equity in Government Business Enterprises:		
Manitoba Lotteries Corporation	5	5
Manitoba Product Stewardship Corporation	2	2
Manitoba Public Insurance Corporation	4	4
	11	11
Equity in Government Business Enterprises	1,740	1,224

6. SINKING FUNDS

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2006, sinking funds had a cost of $2,739 million (2005 - $2,729 million) and a market value of $2,753 million (2005 - $2,828 million). Investment revenue earned on the sinking funds during the year was $204 million (2005 - $219 million).

Section 60 of *The Financial Administration Act* authorizes the Minister of Finance to provide for the creation and management of sinking funds for the orderly retirement of debt. The Minister of Finance may authorize, by directive, the amount, if any, to be allocated to the Province's sinking fund. The Province's sinking fund currently provides for the repurchase of foreign debt and the pre-funding of maturing debt issues. In addition, the Province's sinking fund is invested principally in securities issued or guaranteed by Canadian provinces.

As provided by *The Manitoba Hydro Act*, the Manitoba Hydro-Electric Board (Hydro) is required to provide, prior to its fiscal year end in each year, amounts for sinking funds which are not less than the sum of i.) 1% of the principal amount of Hydro's outstanding debt on the preceding March 31 and, ii.) 4% of the balance of cash and book value of securities in the sinking fund at such date. Sinking funds are invested in Government bonds and the bonds of highly rated corporations and financial institutions. Interest earned on money and securities in the sinking fund is paid to Hydro.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B
(cont'd.)

SUMMARY FINANCIAL STATEMENTS

The sinking funds are allocated as follows:

	($ millions)	
	2006	2005
Province of Manitoba	2,151	2,148
Manitoba Hydro-Electric Board	586	579
University of Manitoba	2	2
Total sinking funds	2,739	2,729

Sinking funds are invested as follows:

	($ millions)	
	2006	2005
Cash and temporary investments	223	268
Portfolio investments	2,516	2,461
	2,739	2,729

7. GUARANTEES

The Government Reporting Entity has guaranteed the repayment of debt, promissory notes, bank loans, lines of credit, mortgages and other securities. Debt guaranteed by the Province is guaranteed as to principal and interest until the debt is matured or redeemed. The authorized limits and the outstanding guarantees are as follows:

	Authorized	($ millions)	
	Limit	2006	2005
Canada Mortgage and Housing Corporate Mortgages	1	-	-
Manitoba Business Start Program	5	1	1
Manitoba Agricultural Services Corporation (Note a)		59	56
Manitoba Housing & Renewal Corporation (Note b)		6	7
Rural Entrepreneur Assistance Program (Note c)	16	4	4
Manitoba Student Financial Assistance Program (Note d)	20	7	8
Rural Municipality of Richot	1	1	1
		78	77
Manitoba Grow Bonds		5	6
Total guarantees outstanding		83	83

The provisions for losses on guaranteed loans are determined by a review of individual guarantees. The provision represents the best estimate of probable claims against the guarantee. Where circumstances indicate the likelihood of claims arising, provisions are established for those loan guarantees. Provision for future losses on guarantees in the amount of $20 million (2005 - $18 million) has been recorded in the accounts.

Note a – The Manitoba Agricultural Services Corporation has guaranteed loans under the following programs:
Guaranteed Operating Loan Program – guarantees each participating lending institution 12 ½% of the respective value of loans made under this program.
Manitoba Cattle Feeder Associations Loans Guarantees – for each association guarantee 25% of the loan to a maximum guarantee of $1 million.
Diversification Loan Guarantee Program – guarantees 25% of loans made by participating lenders, for the diversification or farm value-added activities, to a maximum individual guaranteed loan allowable of $3 million.
Enhanced Diversification Loan Guarantee Program – eliminated lender pooling of guarantees and the maximum of $3 million for qualifying loans.

Note b – The Manitoba Housing and Renewal Corporation has guaranteed the repayment of mortgages and has issued letters of credit which guarantee the terms and conditions of land development agreements and construction contracts.

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Note c – The Province provides guarantees on new and expanding small or home business loans, with a five year term.

Note d – The Government guarantees three types of student loans issued in the past twelve years.

- i. Guaranteed loans: issued by the Canadian Imperial Bank of Commerce (CIBC) from April 1, 1993 to December 31, 1994. These loans are fully guaranteed should the loan be deemed to be in default.
- ii. Limited risk loans: issued by the CIBC from January 2, 1995 to December 31, 1997 and issued by the Royal Bank from June 2, 1997 to July 31, 2000. The Government only guarantees those loans in default that have been issued to credit abusers, insolvent creditors and minors.
- iii. Non-risk loans: issued by the Royal Bank from August 1, 2000 to July 31, 2001. The Government has agreed to guarantee and purchase any loan deemed to be in default.

8. CONTRACTUAL OBLIGATIONS

A. Operating Obligations

The Government Reporting Entity has made future obligations under long-term contracts that cover the rental of tangible capital assets. These financial obligations as at March 31 are as follows:

	Government Business Enterprises	Other	($ millions) Total 2006	2005
Rental of tangible capital assets	61	145	206	222

The Government Reporting Entity has obligations which are not capital in nature, related primarily to future loans and grants and the maintenance of desktop equipment totalling $79 million (2005 - $77 million).

B. Capital Obligations

The Government Reporting Entity has approved long-term financial arrangements.

Future Obligations:

	Government Business Enterprises	Other	($ millions) Total 2006	2005
Tangible capital assets, infrastructure and capital grants	98	117	215	282
Approved mortgages	-	21	21	7
	98	138	236	289

The Manitoba Hydro-Electric Board made a commitment to towards the construction of an office building in downtown Winnipeg. Construction on this building is underway and is expected to be complete on or before September 3, 2007.

The Province has undertaken to expand the Red River Floodway. Through the Manitoba Floodway Authority, the Province is a party to a funding agreement with the Government of Canada for a $240 million (2005 - $240 million) expansion project and has committed to provide $120 million (2005 - $120 million) towards the $240 million (2005 - $240 million) expansion project. Subsequent to the year end a funding amendment was reached between the Government of Canada and the Government of Manitoba increasing the joint contribution by $84 million to a total of $324 million.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B
(cont'd.)

The Government has made contractual obligations against future appropriations that cover the purchase or development of tangible capital assets. Funding is provided annually from appropriations of the Capital Budget. These obligations as at March 31 are as follows:

	($ millions)	
	2006	**2005**
Buildings	3	2
Transportation	34	14
Dams and Water Management Structures	2	2
Equipment	-	1
	39	19

9. CONTINGENCIES

The Government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2006 in the accounts where the final results are uncertain.

A. Disaster Financial Assistance

A provision has been made at March 31, 2006 for all flood claims and other disaster financial assistance. The final amount of the Government's share of these costs under shared cost agreements is uncertain at the date these financial statements were issued.

B. Northern Development Projects

The Province is contingently liable for legal claims associated with past Manitoba Hydro-Electric Board (Hydro) related northern development projects. The outcome of these claims is not determinable at this time.

Hydro is party to an agreement dated December 16, 1977, with Canada, the Province of Manitoba and the Northern Flood Committee Inc., representing the five First Nations in the communities of Cross Lake, Nelson House, Norway House, Split Lake and York Landing. This agreement, in part, provides for compensation and remedial measures necessary to ameliorate the impacts of the Churchill River diversion and the Lake Winnipeg Regulation projects. Comprehensive settlements have been reached with all communities except Cross Lake.

In recognition of all anticipated payments, Hydro has recorded a total liability of $121 million (2005 - $104 million). Reassessments of these liabilities will be made as settlements are achieved. There are other mitigation issues, the outcomes of which are not determinable at this time.

C. Canadian Blood Services

Most provinces, including Manitoba, are members of, and provide funding to, Canadian Blood Services, which operates the Canadian blood system. Their March 31, 2005 audited financial statements indicate that a wholly owned subsidiary, CBS Insurance Company Limited, provides for the contingent liabilities for risks related to operations of the blood system. The actuarially determined provisions for future insurance claims, reported and unreported, related to insured events that occurred prior to March 31, 2005 is $174 million (2004 - $163 million). The related assets as at March 31, 2005 total $208 million (2004 - $187 million). The subsidiary also had a re-insurance contract for additional coverage of $750 million.

Based upon the above, as at March 31, 2005, the Province of Manitoba's share of the provision for future claims is offset with designated assets which, at that point, exceed the provision. In addition, there is re-insurance to cover an additional $750 million in claims of insured events occurring on or before March 31, 2005. March 31, 2006 figures are not available for comparison.

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

10. TREATY LAND ENTITLEMENT OBLIGATIONS

To meet Manitoba's obligation under treaty land entitlement (TLE) agreements, approximately 195,908 acres of provincial Crown land have been transferred to the Government of Canada (Canada) for First Nations.

This transfer will help strengthen the economic development of these First Nations. Manitoba continues to work with Canada and First Nations on a number of initiatives leading to greater self-government in areas such as land and child and family services delivery.

Manitoba's obligations under the Treaty Land Entitlement Framework Agreement requires the setting aside of 985,949 acres of Crown land. To date, 871,428 acres have been selected by the Entitlement First Nations. The Crown lands will be transferred according to the Natural Resources Transfer Agreement, including mines and minerals and other interests normally reserved for the Province under the *Crown Land Act* or any other statute.

11. ENVIRONMENTAL ISSUES

The Manitoba Hydro-Electric Board will incur future costs associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyl contaminated mineral oil from electrical equipment.

12. PENSION PLANS

The Government of the Province of Manitoba supports ten separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan (TP), the Members of the Legislative Assembly Plan (MLAP), the Legislative Assembly Pension Plan (LAPP), the University of Manitoba Pension Plan, the Brandon University Retirement Plan, the Healthcare Employees Pension Plan (HEPP), the Judges' Supplemental Pension Plan, the Winnipeg Child and Family Services Employee Benefits Retirement Plan (WCFSP) and the University of Winnipeg Pension Plan. HEPP offers retirement benefits to employees of health care facilities. The pension plans for the Universities of Manitoba, Winnipeg and Brandon and HEPP are fully funded. There is no unfunded liability reported by the actuaries of the university pension plans and HEPP.

The Government is required, under the amended provisions of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*, to set aside funds beginning in 2000/01, to address the Government's unfunded pension liability. The minimum annual contribution must be sufficient to equal the contributions made by employees and teachers hired on or after April 1, 2000. While the minimum contribution for the year ended March 31, 2006 was $21 million (2005 - $17 million), the Government set aside $85 million (2005 - $79 million) in the Pension Assets Fund. These funds are separately invested and maintained in trust accounts with Civil Service Superannuation Fund (CSSF) and Teachers' Retirement Allowances Fund (TRAF) for the Government and are increased by the rate of return of the funds. Portfolio investments held in the CSSF and in the TRAF for the Government, from funds that it set aside for the future retirement of its pension liability amount to $537 million at March 31, 2006 (2005 - $382 million).

The actuarial valuations were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality. Information about the economic assumptions used in the most recent actuarial valuations is provided below. Demographic assumptions used in the valuations reflect the experience of the plans.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

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(cont'd.)

Plan	Latest Valuation	Real Rate of Return	Inflation Rate	Investment Rate of Return
Civil Service	December 31, 2004	4.00%	2.50%	6.50%
Teachers'	January 1, 2004	4.25%	2.50%	6.75%
MLA	March 31, 2003	4.00%	2.75%	6.75%
LAPP	March 31, 2005	3.25%	2.75%	6.00%
University of Manitoba	December 31, 2003	4.00%	2.50%	6.50%
Brandon University	December 31, 2003	3.50%	2.50%	6.00%
HEPP	December 31, 2003	3.50%	3.00%	6.50%
Judges' Supplemental	March 31, 2003	3.25%	2.75%	6.00%
WCFSP	December 31, 2004	3.50%	2.50%	6.00%
University of Winnipeg	December 31, 2004			6.50%[1] 6.00%[2]

[1] pre-retirement rate of return
[2] post-retirement rate of return

During the year, an increase in employee contribution rate of 1.1% was approved for the Teachers' Plan. No other amendments were made to any of the Plans.

The components of the unfunded pension liability and expense are as follows:

	($ millions)		
	Pension Expense	Pension Liability	
	2006	2006	2005
Civil Service Plan			
Pension Liability	163	1,703	1,606
Unamortized Net Actuarial Gains		14	19
Teachers' Plan			
Pension Liability	226	2,271	2,168
Unamortized Actuarial Losses		(82)	(90)
Members of the Legislative Assembly			
Pension Liability	2	29	29
Unamortized Actuarial Gains		3	4
Legislative Assembly Pension Plan	1	1	N/A
Judges' Supplemental Pension Plan	3	26	23
Other Plans	23	2	2
	418	3,967	3,761

The pension liabilities of Government business enterprises are disclosed in Schedule 3.

A. Civil Service Plan

The Civil Service Superannuation Act (CSSA) established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government through the Civil Service Superannuation Fund (CSSF).

As at March 31, 2006, the CSP had approximately 42,500 (2005 - 41,800) participants including active members, retired employees and former employees with entitlements.

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(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Certain amendments to the CSSA were made in 1992 which required that the CSSF establish and fund a separate account in an amount sufficient to cover the Government's share of pension costs attributable to the 1992 amendments to the CSSA. The CSSF account maintained on behalf of the Government at March 31, 2006 was $44 million (2005 - $38 million).

Effective December 15, 2000, the CSP was amended to include improved benefits. The cost of the plan amendments is fully funded from actuarially determined employee surpluses with no additional cost to the employer. The following describes the current terms of the CSP, with the previous terms indicated within brackets.

The lifetime pension calculation equals 2% of a member's best five years average yearly pensionable earnings multiplied by pensionable service, minus 0.4% (previously 0.6%) of the average Canada Pension Plan (CPP) earnings for the same period multiplied by pensionable service since January 1, 1966.

The CSSA requires that employees contribute 6.0% (previously 5.1%) on pensionable earnings up to the CPP maximum earnings, and 7.0% of pensionable earnings above the maximum. 89.8% of contributions are used to fund basic benefits and 10.2% of contributions are allocated for indexing benefits. Contributions continue until the employee's retirement or other termination from service. Employee contributions for the year ended March 31, 2006 amounted to $76 million (2005 - $72 million).

Indexing benefits are not guaranteed and are paid only to the extent that the indexing adjustment account in CSSF can finance one-half of cost-of-living increases granted. The maximum annual adjustment is limited by legislation to two-thirds of the increase in the consumer price index for Canada.

The Government does not make contributions to the CSSF during employees' service. By legislation, however, it is required to pay 50% of the pension disbursements made from the CSSF. For the year ended March 31, 2006, payments of $99 million (2005 - $90 million) were made to the CSSF.

An actuarial report was completed for CSSF as of December 31, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability for accounting purposes has been calculated to be $1,717 million as at March 31, 2006 (2005 - $1,625 million), which includes net unamortized actuarial gains of $14 million (2005 - $19 million). The increase in liability includes current year interest of $115 million (2005 - $99 million). The December 31, 2004 report disclosed an actuarial loss of $22 million which will be amortized over the 15 year expected average remaining service life of the employee groups. This actuarial loss has been combined with the actuarial loss from the December 31, 2001 actuarial report and the actuarial gain from the December 31, 1998 actuarial report. The 2006 combined amortization was a $5 million decrease to expenses (2005 - $7 million).

B. Teachers' Plan

The Teachers' Pensions Act (TPA) established a defined benefit plan to provide pension benefits to teachers who have taught in public schools in Manitoba.

As at March 31, 2006, the Teachers' Retirement Allowances Fund (TRAF) had approximately 32,200 (2005 - 31,800) participants including active members, retired teachers and former teachers with entitlements.

The lifetime pension calculation is based upon the lesser of A or B:

A) The years of service prior to July 1, 1980, multiplied by 2% and the average salary of the best 7 of the final 12 years of service and years of service after July 1, 1980, multiplied by 2% and the average salary of the best 5 of the final 12 years of service;

less

The years of service from January 1, 1966, to July 1, 1980, multiplied by .6% and the average annual salary up to the yearly maximum pensionable earnings for the same period and years of service after July 1, 1980, multiplied by .6% and the annual salary up to the yearly maximum pensionable earnings for the same period.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B
(cont'd.)

B) 70% of the weighted average annual salary of the member in the 7 and 5 year periods used above.

The TPA requires that teachers contribute 6.8% (prior to September 1, 2005 - 5.7%) on pensionable earnings up to the CPP maximum earnings, and 8.4% (prior to September 1, 2005 - 7.3%) on pensionable earnings above the maximum. 83.4% of contributions are used to fund basic benefits and 16.6% of contributions are allocated for indexing benefits. Contributions continue until the teacher's retirement or other termination from service. Teacher contributions for the year ended March 31, 2006, amounted to $61 million (2005 - $52 million).

Indexing benefits are not guaranteed and are paid only to the extent that one half of the pension adjustment does not result in an unfunded pension liability in TRAF.

The Government does not make contributions to TRAF during teachers' service. By legislation, however, it is required to pay 50% of the pension disbursements and other disbursements made by TRAF as provided for in the TPA. For the year ended March 31, 2006, payments of $115 million (2005 - $108 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability for accounting purposes has been calculated to be $2,189 million as at March 31, 2006 (2005 - $2,078 million), which includes unamortized actuarial losses of $82 million (2005 - $90 million). The increase in liability includes current year interest of $145 million (2005 – $138 million). The latest actuary's calculation disclosed an actuarial loss of $4 million which will be amortized over the 12.5 year expected average remaining service life of the employee groups, commencing in the 2005/06 fiscal year. This actuarial loss has been combined with the actuarial loss from the January 1, 2001 actuarial report and actuarial loss from the 2004 funding valuation. The 2006 amortization expense was $9 million (2005 - $8 million).

C. **Members of the Legislative Assembly Plan**

The pension plan for Members of the Legislative Assembly (MLAs) is established and governed by *The Legislative Assembly Act* (LAA). For MLAs elected prior to the dissolution of the Assembly of the 35th Legislature, the LAA provides for defined pension benefits based on years of service to April, 1995. For those elected after the 35th Legislature in April 1995, the LAA provides for matching contributions. As at March 31, 2006, there are 115 (2005 - 116) plan members who are entitled to receive future pension benefits in accordance with the LAA.

The calculation for defined pension benefits is equal to 3% of the average annual indemnities for the last five years served as a member or all the years served if less than five, multiplied by the number of years of pensionable service up to April 1995. These entitlements are fully indexed to cost of living increases.

An actuarial report was completed for the MLA plan as of March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability for accounting purposes has been calculated to be $32 million as at March 31, 2006 (2005 - $33 million), which includes unamortized actuarial gains of $3 million (2005 - $4 million). The change in liability includes current year interest of $2 million (2005 - $2 million). The March 31, 2003 report disclosed an actuarial gain of $2 million which will be amortized over the 10 year expected average remaining service life of the MLAs. This actuarial gain has been combined with the actuarial gain from the March 31, 2000 actuarial report. The 2006 combined amortization was a $0.6 million decrease to expenses (2005 - $0.6 million).

Under the matching contributions provisions, MLAs may contribute up to 7% of their remuneration toward a Registered Retirement Savings Plan (RRSP) of their choice. The Government matches the member's contributions on a current basis, consequently, there is no liability for past service benefits under this component of the plan. In the event that a member withdraws money from the RRSP while an active member of the Legislative Assembly, the Government's contribution would be refundable.

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(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

D. Legislative Assembly Pension Plan

The Members' Retirement Benefits Regulation of *The Legislative Assembly Act* established a defined benefit plan, effective April 1, 2004 that provides pension benefits to eligible Members of Legislative Assembly (MLA) who elect to participate in the plan. The following persons may elect to become members of the plan:

a) a person who is an MLA when the plan is registered;
b) a person who becomes an MLA after the plan is registered
c) a person who
    i) was an MLA on May 2, 2003, and has not since been re-elected, and
    ii) wishes to purchase a period of pensionable service in respect of his or her membership in the Assembly during the period from April 25,1995, to June 2, 2003.

The calculation of pension benefits under the plan is determined by the following formula:

$$2\% \times S \times Y$$

In this formula:
S is the average of the best five-year annual salaries received by the member during the years for which he or she accrued pensionable service or, if less than five years the average of the annual salaries for that period.
Y is the lesser of
    (i) 35, and
    (ii) the total number of years of pensionable service.

The pension is reduced by an amount equal to 0.25% times the number of months before the member's 60th birthday that the first pension payment is made. These entitlements are indexed to 2/3 of cost of living increases.

Participation in the plan is voluntary. For existing and eligible former MLAs, there is a six month time limit placed on the decision of whether to join the plan commencing once the Pension Commissioner establishes Regulations respecting his decisions. The same six month option period is to be made available for newly elected MLAs. Employee contributions are deducted at 7% of the total annual indemnity and allowance for MLA expenses. The balance of the current service cost, and any other special payments, are to be paid by the Province.

As at March 31, 2006 there were three members contributing to the plan, but the pension fund has not been set up as of that date and the members' and employer's contributions are being held in trust.

An actuarial report was completed for the Legislative Assembly Pension Plan as at March 31, 2005, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's liability for accounting purposes has been projected by the actuary to be $1.2 million as at March 31, 2006.

E. University of Manitoba

The University of Manitoba administers the University of Manitoba Pension Plan (1970), The University of Manitoba GFT Pension Plan (1986) and The University of Manitoba Pension Plan (1993). These are trusteed pension plans. The Trustees are responsible for the custody of the plans' assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

The University of Manitoba Pension Plan (1970) and University of Manitoba Pension Plan (1993) are both money purchase plans with a defined benefit minimum. The funding for the plans requires a matching contribution from the University and the employees. The surplus from the plans, and the matching contribution, is adequate to fund the plans and the current level of funding satisfies the requirements of *The Manitoba Pensions Benefit Act*. The plans are not indexed.

As at December 31, 2005, the University of Manitoba Pension Plans had 5,359 active members (2004 - 5,215), and 985 pensioners (2004 - 953). The plans do not offer deferred pension elections.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

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(cont'd.)

The actuarial present value of accrued pension benefits has been determined using the projected unit credit actuarial cost method and assumptions developed by reference to expected long-term market conditions. An actuarial valuation effective December 31, 2003 was completed in 2004 by Eckler Partners Ltd., a firm of consulting actuaries. The results of this valuation have been extrapolated by Eckler Partners Ltd. to December 31, 2005. As at December 31, 2005, the University of Manitoba Pension Plan (1970) and The University of Manitoba Pension Plan (1993) were in an actuarial surplus of $1 million (2004 - $1 million) and $6 million (2004 - $8 million), respectively. The University of Manitoba cannot access this surplus and, as a result, no asset has been recorded in the Province's Summary Financial Statements.

The University of Manitoba recognized expenses equal to its contributions of $14 million (2004 - $13 million) for the 1970 Plan and for the 1993 Plan for the fiscal year ended March 31, 2006. Employee contributions equalled the employer contributions.

The next full actuarial valuation of the plans will be as at December 31, 2005 and will be completed in 2006.

The University of Manitoba GFT Pension Plan (1986) is a defined contribution pension plan; therefore there is no requirement for an actuarial valuation of this plan. The University's contributions to this plan were $1 million in 2006 (2005 - $1 million).

F. Brandon University

The Brandon University administers the Brandon University Retirement Plan, which is a trusteed pension plan. The Trustees are responsible for the custody of the Plan's assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

The Brandon University Retirement Plan is a final average contributory defined benefit pension plan established April 1, 1974 for the benefit of the employees of Brandon University. The funding for the plan requires a matching contribution from the University and the employees. The surplus from the plan and the matching contribution is adequate to fund the plan and the current level of funding satisfies the requirements of *The Manitoba Pensions Benefit Act*.

As at December 31, 2005, the Brandon University Retirement Plan had 469 active members (2004 - 469), 206 pensioners (2004 - 189), and 50 deferred pensioners (2004 - 40).

The actuarial present value of accrued pension benefits has been determined using the accrued benefit method prorated on service and using assumptions recommended by the actuary and approved by the Trustees. An actuarial valuation was completed as at December 31, 2003 by Eckler Partners Ltd., a firm of consulting actuaries. As at December 31, 2005, the Brandon University Retirement Plan had no actuarial surplus (2004 – no actuarial surplus).

The Brandon University recognized expenses equal to its contributions of $2 million (2005 - $1 million). Employee contributions equalled the employer contributions.

The next full actuarial valuation of the plan will be as at December 31, 2006 and will be completed in 2007.

G. Healthcare Employees Pension Plan - Manitoba

The Healthcare Employees Pension Plan - Manitoba (HEPP) was established in 1997 to meet the retirement needs of Manitoba's healthcare employees and their beneficiaries. Benefits accrued from January 1, 1997 are administered in accordance with the HEPP Plan Text and governing agreements. Benefits accrued up to and including December 31, 1996 are administered in accordance with previous plans. HEPP is governed by an independent, 12 member Board of Trustees representing both union and employer participants. The Trustees are responsible for the custody of the plan's assets and issuance of annual financial statements, which do not form part of the Province's Summary Financial Statements.

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(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

HEPP is a defined benefit pension plan. The lifetime pension calculation is based on an amount equal to:

- 1.5% of a member's highest average earnings up to the Canada Pension Plan Yearly Maximum Pensionable Earnings (YMPE), and,
- 2.0% of a member's highest average earnings over the YMPE,
- multiplied by a member's years of contributory service. The highest average earnings are determined by averaging the best five years of annualized pensionable earnings in the past eleven years prior to termination, retirement or death.

Ad hoc cost of living adjustments (COLAs) to pension benefits are reviewed every year. Members who retired on or before July 1, 2000, disabled members, and deferred vested members received a 2.34% ad hoc COLA effective January 1, 2002. COLAs were not granted for year ended December 31, 2004.
As at December 31, 2004, HEPP had 35,635 active and disabled members (2003 - 34,865), 6,221 deferred vested members (2003 - 4,822), and 9,505 retired members (2003 - 8,971). There are currently 180 participating employers (2003 - 185).

The Plan Text requires that an annual actuarial valuation be performed on both a going concern basis and a solvency basis by an independent actuary. Towers Perrin, a firm of consulting actuaries, prepared the most recent actuarial valuation as at December 31, 2003, using the projected unit credit actuarial cost method. As at December 31, 2003, HEPP had a going concern actuarial surplus of $5 million (2003 - $11 million). The employers cannot access this surplus and, as a result no asset has been recorded in the Province's Summary Financial Statements.

Information for the year ended December 31, 2005 is not available due to extension of the reporting deadline to September 30, 2006 approved by the HEPP Board of Trusties.

H. Judges' Supplemental Pension Plan

The supplemental pension benefit for judges was determined to be the difference between the total pension benefits for judges, including the amendments introduced by Judicial Compensation Committees, and the formula pension available under the Civil Service Superannuation Act (CSSA) as described above in note 12A.

The present supplemental pension benefit for judges was effective July 1, 1992. It was based upon the first Judicial Compensation Committee report of June 7, 1991. Since that time, four successive Judicial Compensation Committees have been duly appointed and amendments have been implemented to the supplemental benefits available under the Judges' Supplemental Pension Plan.

The current supplemental pension, including amendments introduced by the most recent Judicial Compensation Committee, is summarized as follows:

- The supplemental pension plus the pension provided under the CSSA results in an accrual rate of 3.00% for each year of service as a judge,
- A cap of 70% of earnings on the combined judge's supplemental pension and Civil Service Superannuation Pension,
- The overall limit that the judge's supplemental service not exceed 23.5 years.

As at March 31, 2006, there are 63 (2005 - 61) plan members who are entitled to receive future pension benefits in accordance with the plan.

An actuarial report was completed for the Judges' Supplemental Pension Plan as at March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's liability for accounting purposes has been calculated to be $26 million as at March 31, 2006 (2005 - $23 million). The increase in liability includes current year interest of $1 million (2005 $1 million).

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

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I. Winnipeg Child and Family Services Employee Benefits Retirement Plan

The Winnipeg Child and Family Services Employee Benefits Retirement Plan (the WCFSP) was established effective December 29, 2003. The WCFSP applies to employees of the former Winnipeg Child and Family Services who transferred to the Department of Family Services and Housing and the terms apply to those who retire or terminate employment on or after December 29, 2003. These employees were previously members of the United Way Agencies' Employee Benefits Retirement Plan (UWARP). Under a Special Pension Transfer Agreement, the services and benefits earned by those employees were transferred from UWARP to the WCFSP.

At December 31, 2005, the WCFSP had 312 active and deferred members (2004 - 634), 139 pensioners (2004 - 133).

The lifetime pension calculation equals 2% of the member's highest average pensionable earnings in any three non-overlapping periods of 12 consecutive months, less 0.6% of the average CPP earnings for the same period multiplied by years of pensionable service.

Members are required to contribute 4.5% of pensionable earnings up to the CPP maximum and 6% on pensionable earnings over the maximum.

The employer is required to make monthly contributions actuarially determined to provide for the normal cost of the benefits accruing to members and to provide for the proper amortization of any unfunded liability or solvency deficiency. Currently that contribution has been established at an amount equal to employee contributions. In addition, the Government made a commitment to make payments to cover an estimated solvency deficiency of $1.2 million (2005 - $1.9 million). This amount has been accrued in these statements. With payment of this deficiency, the plan is expected to be fully funded as at March 31, 2007.

The WCFSP will reflect the pension benefits earned by its members for service until June 27, 2004. No further pensionable service entitlements will accrue in the WCFSP after June 27, 2004. Subsequent to June 27, 2004, the active members of the WCFSP will become members of the Civil Service Plan (CSP) and will begin earning pension benefit entitlements under the CSP. The pension benefits for all future service of the former WCFSP members will accrue under the CSP.

An actuarial report was completed for the Winnipeg Child and Family Services Plan as at December 31, 2004, by Ellement & Ellement Ltd. The Plan has a going concern surplus of $0.8 million and the solvency ratio of 96.8% at the valuation date.

J. University of Winnipeg Pension Plan

The University of Winnipeg administers the University of Winnipeg Pension Plan (UWPP), which is comprised of a defined benefit segment and a defined contribution segment. The assets of the Plan are held in trust by independent custodians and are not recorded in the accounts of the University.

The University of Winnipeg Pension Plan (UWPP) was established as a contributory defined benefit pension plan at September 1, 1972 and covers all eligible employees of the University, except those who are members of the United Church of Canada Pension Plan. The funding for the plan requires a matching contribution from the University and the employees.

Since December 31, 2000, when the defined contribution segment of the Plan was introduced, approximately one-quarter of the eligible members converted to that plan. The obligation for pension benefits under the defined contribution segment of the Plan will always be equal to net assets in each member's account. Therefore, no surplus or deficiency arises from fluctuations in the investment market.

An actuarial valuation of the UWPP was completed as at December 31, 2004 by Eckler Partners Ltd., a firm of consulting actuaries, and this valuation was updated by them to December 31, 2005. This valuation confirms that the defined benefit segment of the Plan has a solvency deficiency of $15 million. The University would normally be required under the *Pension Benefit Act* to make additional annual payments of $3.4 million over a five year period to retire this solvency deficiency. However, the Provincial Government has provided the University with an amnesty that enables the University to elect to defer the annual solvency payments

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EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

over the next three years. The University made this election in September, 2005. This plan also has a going concern deficiency of $3.7 million, which will be funded by annual payments of $0.4 million over a 15 year period.

As at December 31, 2005, the University of Winnipeg Pension Plan had 663 active members (2004 - 650), 198 pensioners (2004 -187), and 79 deferred pensioners (2004 -72).

The University of Winnipeg recognized expenses equal to its contributions of $3 million (2004 - $2 million). Employee contributions equalled the employer contributions.

The next full actuarial valuation of the plan will be as at December 31, 2007 and will be completed in 2008.

13. LONG TERM DISABILITY INCOME PLAN

The Government guarantees payments of long term disability benefits for all employees covered by the Long Term Disability Income Plan that was established on April 1, 1984. An actuarial valuation report was completed for the Long Term Disability Plan as of September 1, 2003 with projections to March 31, 2004 and March 31, 2005 which determine the Government's liability. The report provides a formula to update the liability on an annual basis. The Government's actuarially determined liability for accounting purposes as at March 31, 2006 was $30 million (2005 - $28 million).

14. SEVERANCE PAY OBLIGATIONS

The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group. An actuarial report was completed for the severance pay liability as of March 31, 2005. The report provides a formula to update the liability on an annual basis. The Government's actuarially determined net liability for accounting purposes as at March 31, 2006 was $280 million (2005 - $243 million).

15. AMOUNTS HELD IN TRUST

The Government held certain fiduciary trusts for investment or administration at March 31, 2006, totalling $417 million (2005 - $394 million). Such deposits are pooled with other available funds of the Government for investment purposes and are accorded a market rate of interest.

The Government also provides a safekeeping service for various departments, agencies, boards and commissions. In this capacity, it held custodial trust funds in the form of bonds and other securities at March 31, 2006 totalling $104 million (2005 - $113 million) and title to tangible capital assets in trust in the amount of $68 million (2005 - $68 million).

The Civil Service Superannuation Fund, University of Manitoba Pension Plans, University of Winnipeg Pension Plan and Brandon University Retirement Plan have been established by legislation to administer various pension and insurance trust funds to which the Government Reporting Entity contributes but over which the Government Reporting Entity has no power of appropriation. The total assets as at December 31st are as follows.

	($ millions)	
	2006	**2004**
Civil Service Superannuation Fund	3,550	3,096
University of Manitoba Pension Plans	968	891
University of Winnipeg Pension Plans	127	116
Brandon University Retirement Plan	93	84
	4,738	4,187

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

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16. DEBT SERVICING

Debt servicing costs of $790 million (2005 - $765 million) is net of interest recoveries from Government business enterprises of $474 million (2005 - $436 million) and includes $83 million (2005 - $97 million) representing interest expense of Crown organizations (Schedule 11). Government business enterprises debt servicing costs of $517 million (2005 - $514 million) are reported on Schedule 3.

17. AMOUNTS DUE TO THE FEDERAL GOVERNMENT

The March 31, 2003 financial statements disclosed that the net impact of the federal settlement related to the Federal Accounting Error for the period of 1997 to 1999 was a $91 million loan payable owing to the Federal Government over a ten-year period commencing in 2004/05. As at March 31, 2006, this loan payable has been reduced to $71 million (2005 - $80 million) by offsetting an adjustment to unapplied taxes and the payment of an instalment of $9 million.

To offset negative adjustments to the 2004 Equalization payments, the Federal Government provided to the Province a net loan payable of $38 million. Repayment of this loan payable is scheduled to begin in April, 2006 and continue over a five year period. Similarly, to offset negative adjustments to the 2004 Canada Health and Social Transfer (CHST) entitlements, the Federal Government provided to the Province a net loan payable of $9 million. Repayment of this loan is scheduled to begin in April, 2006 and continue over a five year period.

Through the Manitoba Opportunities Fund Ltd., the Province holds and invests deposits made through the Federal Department of Citizenship and Immigration Canada's (CIC) Immigrant Investor Program. The Federal Immigrant Investor Program seeks to attract experienced persons and capital to Canada. Investors must demonstrate business experience and make an investment into the program. The funds are distributed among participating Provinces. These funds are returned to the investor after a period of 5 years. As at March 31, 2006 the Province has loans payable of $75 million (2005 - $39 million) to be repaid to the Federal Government five years after receipt.

18. RISK MANAGEMENT AND THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Province employs various risk management strategies and operates within fixed risk exposure limits to ensure exposure to risk is managed in a prudent and cost effective manner. A variety of strategies are used, including the use of derivative financial instruments (derivatives). Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to mitigate interest rate risk and the risks attached to foreign currency fluctuations. The Province does not use derivatives for speculative purposes. Gains or losses realized arising from derivative transactions are deferred and amortized over the remaining life of the derivative contract.

Hedges are created primarily through derivatives (swaps), which are legal contracts under which the Province agrees with another party to exchange cash flows based upon one or more notional amounts using stipulated reference interest rates for a specified period. Swaps can also be used to exchange cash flows involving different currencies. Swaps allow the Province to effectively manage the terms of its existing obligations and thereby convert them into obligations that meet the Provinces risk parameters.

Other derivative instruments used by the Province include forward foreign exchange contracts and forward interest rate agreements. Foreign exchange or currency risk is the risk that foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, the Province uses derivative contracts including foreign exchange forward contracts as well as swaps to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current portfolio of foreign debt is fully hedged through the use of derivatives and US dollar sinking funds, except for the impact of the unamortized foreign exchange fluctuation account of $79 million (2005 - $84 million).

Derivative contracts hedge the underlying debt by matching the critical terms to achieve effectiveness. The current policy has hedged the foreign currency debt principal and interest payments through the use of derivatives in relation to general purpose debt as well as through the use of future US dollar revenue streams and US dollar sinking funds in relation to debt incurred on behalf of Manitoba Hydro Electric Board.

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EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

The table below presents a maturity schedule of the Province's derivatives, by type, outstanding at March 31, 2006, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Derivative Portfolio Notional Value
As at March 31, 2006

	Maturity in Fiscal Year ($millions)							
Derivatives	**2007**	**2008**	**2009**	**2010**	**2011**	**6 – 10 Years**	**Over 10 Years**	**Total**
Interest rate swaps	2,040	1,175	836	2,158	2,176	6,516	5,233	20,134
Cross currency swaps	552	462	984	609	234	972	2,915	6,728
Forward foreign exchange contracts	123					208		331
Total	2,715	1,637	1,820	2,767	2,410	7,696	8,148	27,193

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which the Province has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2006.

Credit Risk Exposure
As at March 31, 2006

	($ millions)	
	2006	**2005**
Gross credit risk exposure 1	59	172
Less: Netting 2	(762)	(967)
Net Credit Risk Exposure	(703)	(795)

1 *Gross credit risk exposure is the gross credit exposure to counterparties with net positive exposures (the respective counterparties owe the Province.)*

2 *"Netting" is the gross negative credit exposure to counterparties with net positive credit exposures covered by master agreements providing for close out netting when contracts do not have co-terminus settlement dates (the Province owes the respective counterparties).*

As at March 31, 2006, the Province has no net credit risk exposure, but has a net liability to counterparties.

The Province manages its credit risk exposure from derivatives by, among other activities, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. In addition, the Province enters into contractual agreements ("master agreements") with all of its counterparties that provide for termination netting and if applicable payment netting. Net credit risk exposure is the potential loss including the mitigating impact of these netting provisions.

A one percent (100 basis points) increase in interest rates would increase debt servicing costs by $13.5 million (2005 - $11.8 million). Liquidity risk is the risk that the Province will not be able to meet its current short-term financial obligations. To reduce liquidity risk, the Province maintains liquid reserves, that is, cash and cash equivalents (Note 2), at levels that will meet future cash requirements and will give the Province flexibility in the timing of issuing debt. In addition, the Province has short-term note programs and sinking funds as alternative sources of liquidity.

In accordance with the Manitoba Hydro-Electric Board's (Hydro) Exposure Management Program, revenues used as hedges are firm US dollar export revenues which are translated at the historical book value exchange rates of the respective US dollar denominated debt obligations to which the firm revenues are linked and for which they, together, form an effective hedge. For purposes of bridging the timing of US dollar denominated debt maturities and the US dollar revenue streams used to hedge those debt maturities, Hydro utilizes US dollar sinking funds.

19. RELATED PARTY TRANSACTIONS

A. Related Party Borrowings

Borrowings include $330 million (2005 - $306 million) owed to Manitoba Public Insurance Corporation related to the capital financing of school board and health care facilities as well as $250 million (2005 - $197 million) for the financing of general Government programs. A nil balance (2005 - $10 million) is owed to Manitoba Hydro-Electric Board for the capital financing of health care facilities and $45 million (2005 - $45 million) is payable to the Manitoba Liquor Control Commission.

These loans and debentures are repayable over a term from 2007 to 2025 at varying interest rates ranging from 0% to 12.25%.

B. Water Power Rentals

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of $125 million (2005 - $105 million), is included in the Summary Statement of Revenue and Expense under the Manitoba Collections category. These rentals are paid for the use of water resources in the operation of Hydro's hydroelectric generating stations. Water rental rates during the year were $3.34 per megawatt hour (MW.h) (2005 - $3.34 per MW.h).

C. Guarantee Fees

Manitoba Hydro-Electric Board (Hydro) remits guarantee fees to the Government based on the Hydro debt that the Province guarantees on their behalf. The guarantee fees paid by Hydro for the year ended March 31, 2006 were $69 million (2005 - $70 million).

The Government guarantees and administers Manitoba HydroBonds. Outstanding bonds as at March 31, 2006 totalled $485 million (2005 - $654 million). The bonds carry fixed and variable coupon rates that range from 3.1% to 10.0%. Manitoba HydroBonds are redeemable at the option of the holder.

D. Revenue From Government Business Enterprises

Under the *Workplace Safety and Health Act of Manitoba*, The Workers Compensation Board supports the administrative expenses incurred by the Department of Labour and Immigration for The Workplace Safety and Health program and the Worker Advisor Office. The amount for the year ended March 31, 2006 was $7 million (2005 - $7 million).

The Manitoba Lotteries Corporation provided $3 million in funding for the year ended March 31, 2006 (2005 - $2 million) to the Addictions Foundation of Manitoba for problem gambling services programming. Manitoba Hydro-Electric Board paid Corporation Capital Tax of $37 million for the year ended March 31, 2006 (2005 - $34 million).

E. Purchase of Winnipeg Hydro

The Purchase of Winnipeg Hydro Act received Royal Assent on August 9, 2002. In the 2003 fiscal year, the Manitoba Hydro-Electric Board entered into an agreement with the City of Winnipeg to purchase all of the net assets of Winnipeg Hydro. The consideration principally consisted of annual payments to the City of Winnipeg of $25 million per annum in years 2002 to 2006, $20 million per annum in years 2007 to 2010, and $16 million per annum in year 2011 and each year thereafter. Winnipeg Hydro was an electric utility with 94,000 customers and annual revenues of $125 million.

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(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

F. Driver Licencing Operations

Effective October 4, 2004, the Province of Manitoba transferred management and administration of driver licencing to the Manitoba Public Insurance Corporation (MPIC), including all aspects pertaining to driver safety, vehicle registration and driver licencing including all related financial, administrative and data processing services.

The Province of Manitoba has agreed to provide funding to MPIC in the amount of $21 million annually, into perpetuity, to defray the cost borne by MPIC as a result of the transfer.

MPIC, on behalf of the Province of Manitoba, collects and transfers motor vehicle registration fees to the Province. For the fiscal year ended March 31, 2006, these fees totalled $98 million (2005 - $85 million). Effective October 4, 2004, MPIC is also responsible for collecting and transferring driver licencing fees to the Province of Manitoba. For the fiscal year ended March 31, 2006 these fees totalled $19 million (the six month period ended March 31, 2005 - $9 million).

20. COMPARATIVE FIGURES

Certain of the 2005 financial statement figures have been reclassified to be consistent with the 2006 presentation.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

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(cont'd.)

SUMMARY FINANCIAL STATEMENTS

SCHEDULE 1

SUMMARY STATEMENT OF AMOUNTS RECEIVABLE

As at March 31, 2006

	($ millions) 2006	2005
TAXATION REVENUE:		
Corporation capital tax	1	10
Corporation income tax	64	58
Gasoline tax	13	13
Health and education levy	30	27
Individual income tax	126	121
Insurance corporation tax	14	14
Motive fuel tax	9	8
Oil and natural gas tax	1	-
Retail sales tax	123	119
Revenue Act, 1964, part 1	9	8
Tobacco tax	17	19
	407	397
GOVERNMENT OF CANADA AND OTHER GOVERNMENTS:		
Canada health and social transfers	4	3
Municipal corporations	37	46
Provincial and Territories	18	24
Shared cost programs/agreements	169	127
Other	20	20
	248	220
INTEREST:		
Province of Manitoba sinking fund	24	26
Other investments	7	6
	31	32
OTHER:		
Health and social services	91	127
Manitoba Hydro-Electric Board	11	10
Manitoba Liquor Control Commission	23	20
Manitoba Lotteries Corporation	6	3
Morris-Macdonald School Division	-	1
Sundry departmental revenue	61	59
Other	104	133
	296	353
	982	1,002
Less: Allowances	82	102
	900	900

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

SCHEDULE 2

SUMMARY STATEMENT OF LOANS AND ADVANCES

As at March 31, 2006

	($ millions) 2006	2005
GOVERNMENT BUSINESS ENTERPRISES:		
Manitoba Liquor Control Commission	-	5
Manitoba Hydro-Electric Board	6,625	6,548
Manitoba Lotteries Corporation	237	246
	6,862	6,799
OTHER:		
Loans and Mortgages - Note 1	608	656
Hudson Bay Mining and Smelting Co. Ltd - Note 2	16	17
Manitoba Potash Corporation - Note 3	4	4
Manitoba student loans - Note 4	29	22
Regional family services agencies - Note 5	14	9
Rural economic development initiatives program - Note 6	3	3
Other	2	1
	676	712
Less: Valuation allowance	91	91
	585	621
	7,447	7,420
Less: Sinking funds provided for repayment of applicable debt	586	579
	6,861	6,841
Less: Debt incurred for and repayable by the Manitoba-Hydro Electric Board and Manitoba Lotteries Corporation	6,276	6,215
NET LOANS AND ADVANCES	585	626

The Government business enterprises loans and advances portfolio is due in varying annual amounts to the year 2044, bearing interest rates from nil to 13.375%.

Note 1

	2006	2005
Agricultural direct lending and special assistance program mortgages, due in varying annual amounts to the year 2032, bearing interest rates ranging from 2.25% to 14.5%.	345	358
Housing direct lending and special assistance program mortgages, due in varying annual amounts to the year 2024, bearing interest rates ranging from 0.0% to 13.5%.	162	167
Business development assistance loans, due in varying annual amounts to the year 2013, bearing interest rates ranging from nil to 9.875%.	77	106
Northern business development and fishing industry assistance loans, due in varying annual amounts to the year 2009, bearing interest rates ranging from 3.5% to 6.75%.	24	25
	608	656

Note 2 - environmental improvement loan, due in varying amounts to the year 2008, bearing no interest and guaranteed with an irrevocable letter of credit.

Note 3 - advances, repayable on the Corporation generating revenue or the sale of the Province's interest, bearing interest at prime less 3/4%.

Note 4 - student loans, payment and interest free until 6 to 12 months past the completion of studies, due 114 to 174 months after that time, carrying interest at prime plus 2.5%.

Note 5 - advances to provide family services agencies with interim funding to meet daily operating expenses related to providing services, to be repaid when no longer required, bearing no interest.

Note 6 - Community Works Program loans, repayable at the end of the 5 to 10 year term, bearing no interest.

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

GOVERNMENT BUSINESS ENTERPRISES

SCHEDULE 3

SCHEDULE OF SUMMARY OPERATING RESULTS AND FINANCIAL POSITION

For the Year Ended March 31, 2006
($ millions)

	UTILITY	INSURANCE	FINANCE	RESOURCE DEVELOPMENT	TOTAL 2006	TOTAL 2005
RESULTS OF OPERATIONS						
Revenues from operations	2,399	1,254	1,170	-	4,823	4,217
Expenses: From operations	1,481	1,183	684	-	3,348	3,024
Debt servicing	503	-	14	-	517	514
Total expenses	1,984	1,183	698	-	3,865	3,538
Net income	415	71	472	-	958	679
Transfers to the Government	-	-	(473)	-	(473)	(458)
	415	71	(1)	-	485	221
Other comprehensive income	-	31	-	-	31	37
Net increase in equity in Government business enterprises	415	102	(1)	-	516	258
FINANCIAL POSITION						
Assets:						
Cash and temporary investments	119	92	41	1	253	110
Amounts receivable	427	265	32	-	724	681
Portfolio investments - Due from the Province	-	-	45 *	-	45	558
Due from others	-	2,663	-	-	2,663	1,863
Capital assets	7,713	43	231	-	7,987	7,766
Pension assets	719	-	-	-	719	615
Other assets	652	93	37	-	782	666
Total assets	9,630	3,156	386	1	13,173	12,259
Liabilities						
Accounts payable, accrued liabilities and deferred revenue	1,125	550	94	-	1,769	1,527
Long-term debt: Owing to the Province	6,070	-	237	1	6,308	6,246
Owing to others	544	-	1	-	545	648
Provision for future benefits: Pension obligations	606	124	47	-	777	714
Future cost of existing claims	-	2,034	-	-	2,034	1,900
Total liabilities	8,345	2,708	379	1	11,433	11,035
Equity in Government business enterprises	1,285	448	7	-	1,740	1,224

* Represents pension assets invested with the Province

For Government business enterprises whose fiscal year is prior to March 31, the amounts reflected are as at their fiscal year end.

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

SCHEDULE 4

SUMMARY STATEMENT OF LONG-TERM INVESTMENTS

As at March 31, 2006

	($ millions) 2006	 2005
OTHER INVESTMENTS, AT COST		
Common shares -		
Manitoba Potash Corporation - 490,000 shares	5	5
Preferred shares -		
3863620 Canada Limited - 11,000,000 shares	11	11
Special shares -		
Crocus Investment Fund - 2,000,000 shares	2	2
Debentures -		
Municipalities	2	2
Profit sharing agreement -		
Hudson Bay Mining and Smelting re: Ruttan Mine	-	11
Other -		
Limited partnership investments	14	14
	34	45
Less: Valuation allowance	30	41
	4	4

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

SUMMARY STATEMENT OF BORROWINGS

SCHEDULE 5

As at March 31, 2006

($ millions)

Fiscal Year of Maturity	Bonds and Debentures Cdn	Bonds and Debentures US	Canada Pension Plan Cdn	Loans and Mortgages Cdn	Promissory Notes and Treasury Bills Cdn	Totals 2006	Totals 2005
2006	-	-	-	-	-	-	2,172
2007	1,188	584	150	-	325	2,247	1,943
2008	1,526	-	90	-	-	1,616	1,616
2009	1,940	288	106	-	-	2,334	2,296
2010	738	463	115	-	-	1,316	1,419
2011	841	292	103	-	-	1,236	828
2006-2011	6,233	1,627	564	-	325	8,749	10,274
2012-2016 Operating Fund	3,389	396	177	-	-	3,962	3,071
2017-2026 Operating Fund	3,432	817	15	237	-	4,501	4,137
2027-2045 Operating Fund	2,343	-	-	-	-	2,343	2,041
2007-2016 Government of Canada (Note 17)	-	-	-	193	-	193	166
2007-2019 Government Business Enterprises (Note 19)	-	-	-	375	-	375	361
2007-2043 Crown Organizations	-	-	-	216	-	216	222
2012-2045	9,164	1,213	192	1,021	-	11,590	9,998
Total borrowings	15,397	2,840	756	1,021	325	20,339	20,272
Reduced by:							
Unamortized debt issue costs	(9)	(6)	-	-	-	(15)	(22)
Province of Manitoba debt issues held as investments in sinking funds and cash and cash equivalents	(1,765)	-	-	-	-	(1,765)	(1,860)
	13,623	2,834	756	1,021	325	18,559	18,390

	March 31/06 Cdn $ Valuation (See Notes)	March 31/05 Cdn $ Valuation (See Notes)
Borrowings payable in:		
Canadian dollars	14,667	14,385
Foreign issues hedged to Canadian dollars	2,834	2,947
U.S. dollars	2,221	2,056
Foreign issues hedged to U.S. dollars	617	884
Total borrowings	20,339	20,272

Note 1: The hedges are derivative contracts which include swaps and forward foreign exchange contracts.

Note 2: The Canadian dollar valuation is calculated using the foreign currency exchange rates in effect at each March 31 adjusted for any forward foreign exchange contracts entered into for settlement after year-end.

Note 3: Interest rates on these borrowings fall into one of three categories:

i) Fixed with rates ranging from 3.25% to 11.33%.

ii) Floating Canadian - Bankers Acceptance (BA) setting, established quarterly or monthly, with the lowest rate currently set at 3.787% and the highest set at 7.33% as at March 31, 2006.

iii) Floating U.S. - U.S. Dollar London Interbank Offering Rate (LIBOR) setting, established quarterly, with the lowest rate currently set at 5.0455% and the highest set at 5.4255% as at March 31, 2006.

C

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

SCHEDULE 6

SUMMARY STATEMENT OF ACCOUNTS PAYABLE, ACCRUED CHARGES, PROVISIONS AND DEFERRALS

As at March 31, 2006

	($ millions) 2006	2005
Accounts payable	846	801
Accrued charges:		
Interest accrued on borrowings and trust funds	234	232
Other accrued liabilities:		
Canadian Agricultural Income Stabilization	110	66
Compensation for Victims of Crime	19	18
Disaster assistance	17	1
Flood claims	15	15
Hepatitis C assistance	6	6
Land acquisition claims	2	2
Long Term Disability Income Plan	30	28
Manfor Ltd. divestiture	1	1
Net Income Stabilization Account Program (NISA)	-	1
Enviromental Liabilites	147	148
Salaries and benefits	585	582
Tripartite Land Assembly Program	3	3
Workers compensation claims	10	7
Other	12	34
	957	912
Provision for future losses on guarantees (Note 7)	20	18
Deferred Revenue		
Deferred Contributions Related to Future Expense	50	57
Government of Canada - Advances re: Shared Cost Programs Not Yet Claimed	98	113
Research and Special Funds	96	87
Tuition and Education Fees	17	13
Vehicle Registration	43	42
Other	36	30
	340	342
	2,397	2,305

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B
(cont'd.)

SUMMARY STATEMENT OF TANGIBLE CAPITAL ASSETS

SCHEDULE 7

For the Year Ended March 31, 2006
($ millions)

	General Capital Assets					Infrastructure				Totals	
	Land	Buildings and Leasehold Improvements	Vehicles and Equipment	Computer Hardware and Software	Assets Under Construction	Land and Land Improvements	Transportation	Dams and Water Management Structures	Assets Under Construction	2006	2005
Cost											
Opening cost, as previously reported	71	2,860	1,340	401	273	222	1,841	81	27	7,116	5,769
New organizations included in the Government Reporting Entity (Note 4)	3	77	26	18	4	2	-	-	-	130	1,156
Opening cost restated (*)	74	2,937	1,366	419	277	224	1,841	81	27	7,246	6,925
Add:											
Additions during the year	6	209	91	29	63	5	82	2	44	531	435
Assets acquired in prior years	-	3	-	-	-	-	-	-	-	3	-
Less:											
Disposals and write downs	(1)	(12)	(19)	(7)		-	-	-	-	(39)	(105)
Settlements and reclassifications	-	30	8	19	(59)	5	2	2	(7)	-	(9)
Closing cost	79	3,167	1,446	460	281	234	1,925	85	64	7,741	7,246
Accumulated amortization											
Opening, as previously reported	-	1,197	916	197	-	34	874	50	-	3,268	2,638
New organizations included in the Government Reporting Entity (Note 4)	-	29	18	14	-	2	-	-	-	63	540
Opening accumulated amortization restated (*)	-	1,226	934	211	-	36	874	50	-	3,331	3,178
Add:											
Amortization	-	74	85	35	-	3	67	2	-	266	254
Assets acquired in prior years	-	3	-	-	-	-	-	-	-	3	-
Less:											
Accumulated amortization on disposals, write downs, reclassifications	-	(7)	(23)	-	-	1	-	-	-	(29)	(101)
Closing accumulated amortization	-	1,296	996	246	-	40	941	52	-	3,571	3,331
Net Book Value of Tangible Capital Assets	79	1,871	450	214	281	194	984	33	64	4,170	3,915

* Effective April 1, 2004, the Government included the capitalization of infrastructure as part of the tangible capital assets.

During the year the Province capitalized $0.8 million of interest relating to assets under construction. (2005 - $0.5 million)

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

SUMMARY FINANCIAL STATEMENTS

SCHEDULE 8

FUNDS, ORGANIZATIONS AND BUSINESS ENTERPRISES COMPRISING THE GOVERNMENT REPORTING ENTITY

CONSOLIDATED FUND:
OPERATING FUND AND SPECIAL FUNDS:

Abandonment Reserve Fund
Debt Retirement Fund
Farm Machinery and Equipment Act Fund
Fiscal Stabilization Fund
Land Titles Assurance Fund
Manitoba Law Reform Commission
Manitoba Trucking Productivity Improvement Fund
Mining Community Reserve
Mining Rehabilitation Reserve
Pension Assets Fund
Quarry Rehabilitation Reserve
Veterinary Science Scholarship Fund
Victims Assistance Fund

CROWN ORGANIZATIONS:

Addictions Foundation of Manitoba
Assiniboine Community College
Board of Administration under the Embalmers and Funeral Directors Act
Brandon University
CancerCare Manitoba
Centre culturel franco-manitobain
Child and Family Services of Central Manitoba
Child and Family Services of Western Manitoba
Collège universitaire de Saint-Boniface
Communities Economic Development Fund
Cooperative Loans and Loans Guarantee Board
Cooperative Promotion Board
Council on Post-Secondary Education
Crown Corporations Council
Diagnostic Services of Manitoba Inc.
Economic Innovation and Technology Council
First Nations of Northern Manitoba Child & Family Services Authority
First Nations of Southern Manitoba Child & Family Services Authority
General Child and Family Services Authority
Helen Betty Osborne Foundation
Horse Racing Commission

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B
(cont'd.)

SCHEDULE 8
(cont'd)

Insurance Council of Manitoba
Legal Aid Services Society of Manitoba
Manitoba Adolescent Treatment Centre Inc.
Manitoba Agricultural Services Corporation
Manitoba Arts Council
Manitoba Boxing Commission
Manitoba Centennial Centre Corporation
Manitoba Community Services Council Inc.
Manitoba Development Corporation
Manitoba Film and Sound Recording Development Corporation
Manitoba Floodway Authority
Manitoba Gaming Control Commission
Manitoba Habitat Heritage Corporation
Manitoba Health Research Council
Manitoba Health Services Insurance Plan
Manitoba Hospital Capital Financing Authority
Manitoba Housing and Renewal Corporation
Manitoba Opportunities Fund Ltd.
Manitoba Trade and Investment Corporation
Manitoba Water Services Board
Metis Child and Family Services Authority
Public Schools Finance Board
Red River College
Regional Health Authorities (including controlled organizations)
  Assiniboine Regional Health Authority Inc.
  Brandon Regional Health Authority Inc.
  Burntwood Regional Health Authority Inc.
  Churchill RHA Inc.
  Interlake Regional Health Authority
  NOR-MAN Regional Health Authority Inc.
  North Eastman Health Association Inc.
  Parkland Regional Health Authority Inc.
  Regional Health Authority - Central Manitoba Inc.
  South Eastman Health/Santé Sud-Est Inc.
  Winnipeg Regional Health Authority
Rehabilitation Centre for Children Inc.

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

SCHEDULE 8
(cont'd)

- Special Operating Agencies Financing Authority
  - Civil Legal Services
  - Companies Office
  - Fleet Vehicles Agency
  - Food Development Centre
  - Industrial Technology Centre
  - Land Management Services
  - Manitoba Education, Research and Learning Information Networks (Merlin)
  - Manitoba Securities Commission
  - Manitoba Text Book Bureau
  - Materials Distribution Agency
  - Office of the Fire Commissioner
  - Organization and Staff Development
  - Pineland Forest Nursery
  - The Property Registry
  - The Public Trustee
  - Vital Statistics Agency
- Sport Manitoba Inc.
- Tire Stewardship Board
- Travel Manitoba
- University College of The North
- University of Manitoba
- University of Winnipeg
- Venture Manitoba Tours Ltd.

GOVERNMENT BUSINESS ENTERPRISES: (Schedule 3) (Note 5)

Utility:
- Manitoba Hydro-Electric Board

Insurance:
- Manitoba Public Insurance Corporation
- Workers Compensation Board

Finance:
- Manitoba Liquor Control Commission
- Manitoba Lotteries Corporation
- Manitoba Product Stewardship Corporation

Resource Development:
- Leaf Rapids Town Properties Ltd.
- Manitoba Hazardous Waste Management Corporation

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B
(cont'd.)

SCHEDULE 9

RECONCILIATION OF OPERATING FUND BUDGETARY BALANCE TO SUMMARY NET INCOME

As at March 31, 2006

($ millions)

	2005-06 Summary Budget	2005-06 Operations per Entity Financial Statements	2004-05 Summary Net Income (loss) as restated
OPERATING FUND AND SPECIAL FUNDS			
Operating Fund and Special Funds	146	226	541
CROWN ORGANIZATIONS			
Brandon University	-	1	1
CancerCare Manitoba	2	(1)	2
Collège universitaire de Saint-Boniface	-	2	-
Diagnostic Services of Manitoba Inc.	-	-	(1)
Manitoba Agricultural Services Corporation	(22)	(131)	(85)
Manitoba Development Corporation	-	6	-
Manitoba Gaming Control Commission	-	-	(1)
Manitoba Habitat Heritage Corporation	-	1	-
Manitoba Housing and Renewal Corporation	-	1	2
Manitoba Opportunities Fund	-	1	-
Manitoba Water Services Board	-	-	(1)
Public Schools Finance Board	-	18	6
Red River College	-	3	3
Regional Health Authorities and controlled organiztions	6	(45)	(13)
Special Operating Agencies Financing Authority	11	4	(1)
University College of the North	-	1	(1)
University of Manitoba	29	67	73
University of Winnipeg	-	-	3
Venture Manitoba Tours Ltd.	(1)	5	(1)
TOTAL CROWN ORGANIZATIONS	25	(67)	(14)
Adjustments on Consolidation	-	(63)	4
TOTAL OPERATING FUND AND SPECIAL FUNDS AND CROWN ORGANIZATIONS	171	96	531
GOVERNMENT BUSINESS ENTERPRISES			
Leaf Rapids Town Properties Ltd.	-	-	(1)
Manitoba Hazardous Waste Management Corporation	-	(1)	(1)
Manitoba Hydro - Electric Board	210	415	136
Manitoba Liquor Control Commission	187	196	185
Manitoba Lotteries Corporation	271	277	273
Manitoba Product Stewardship Corporation	(1)	-	(1)
Manitoba Public Insurance Corporation	8	48	79
Workers Compensation Board	16	23	9
	691	958	679
Less: Adjustments on Consolidation	(458)	(473)	(458)
TOTAL GOVERNMENT BUSINESS ENTERPRISES (Schedule 3)	233	485	221
PENSION LIABILITY INCREASE	(206)	(208)	(190)
TOTAL SUMMARY NET INCOME	198	375	562

Appendix B
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

SCHEDULE 10

RECONCILIATION OF OPERATING FUND ACCUMULATED DEFICIT TO SUMMARY ACCUMULATED DEFICIT

As at March 31, 2006

($ millions)

	Restated Accumulated Surplus (Deficit) March 31,2005	2005-06 Summary Net Income (loss)	Adjustments to Accumulated Surplus (Deficit)	Accumulated Surplus (Deficit) March 31,2006
OPERATING FUND AND SPECIAL FUNDS				
Operating Fund and Special Funds	(6,210)	226	-	(5,984)
CROWN ORGANIZATIONS				
Addictions Foundation of Manitoba	4	-	-	4
Assiniboine Community College	8	-	-	8
Brandon University	8	1	-	9
CancerCare Manitoba	10	(1)	-	9
Child and Family Services of Western Manitoba	1	-	-	1
Collège universitaire de Saint-Boniface	28	2	-	30
Diagnostic Services of Manitoba Inc	(1)	-	-	(1)
First Nations of Northern Manitoba Child & Family Services	1	-	-	1
Manitoba Adolescent Treatment Centre	1	-	-	1
Manitoba Agricultural Services Corporation	218	(131)	-	87
Manitoba Development Corporation	3	6	-	9
Manitoba Gaming Control Commission	1	-	-	1
Manitoba Habitat Heritage Corporation	4	1	-	5
Manitoba Health Services Insurance Plan	1	-	-	1
Manitoba Housing and Renewal Corporation	(245)	1	-	(244)
Manitoba Opportunities Fund	-	1	-	1
Manitoba Water Services Board	(2)	-	-	(2)
Public Schools Finance Board	-	18	-	18
Red River College	13	3	-	16
Regional Health Authorities and controlled organizations	121	(45)	-	76
Special Operating Agencies Financing Authority	48	4	-	52
University College of the North	4	1		5
University of Manitoba	761	67	-	828
University of Winnipeg	48	-	-	48
Venture Manitoba Tours	(9)	5	-	(4)
	(5,184)	159	-	(5,025)
Adjustments on Consolidation	966	(63)	-	903
	(4,218)	96	-	(4,122)
GOVERNMENT BUSINESS ENTERPRISES				
Manitoba Hydro - Electric Board	870	415	-	1,285
Manitoba Liquor Control Commission	-	196	(196)	-
Manitoba Lotteries Corporation	5	277	(277)	5
Manitoba Product Stewardship Corporation	3	(1)	-	2
Manitoba Public Insurance Corporation	216	48	-	264
Workers Compensation Board	130	23	31	184
	1,224	958	(442)	1,740
Adjustments on Consolidation	-	(473)	473	-
	1,224	485	31	1,740
PENSION LIABILITY	(3,761)	(206)	-	(3,967)
TOTAL SUMMARY BALANCES	(6,755)	375	31	(6,349)

Note - Differences may result from rounding

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix B

(cont'd.)

SCHEDULE 11

SUMMARY STATEMENT OF EXPENSE BY TYPE

For the Year Ended March 31, 2006

	($ millions)	
	2006	2005
Personnel Services	3,705	3,546
Grants/Transfer Payments	2,735	2,499
Transportation	101	96
Communications	53	55
Supplies and Services	1,077	899
Social Assistance Related	709	680
Other Operating	853	742
Debt Servicing - Provincial Departments (Note 16)	707	668
- Crown Organizations (Note 16)	83	97
Minor Capital	61	42
Amortization of Tangible Capital Assets (Schedule 7)	266	254
	10,350	9,578

Appendix C

SPECIAL PURPOSE OPERATING FUND AND SPECIAL FUNDS FINANCIAL STATEMENTS - AUDITOR'S REPORT

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

On the Special Purpose Operating Fund and Special Funds Financial Statements
Province of Manitoba

To the Members of the Legislative Assembly of the Province of Manitoba

These financial statements report transactions and events of the Operating Fund and Special Funds only. Significant financial activities of the Government occur outside of these funds. Therefore, readers should not use these special purpose financial statements to understand and assess the Government's overall management of public financial affairs and provincial resources.

The Summary Financial Statements are complete financial statements. Their purpose is to report the full nature and extent of the overall financial affairs and resources of the Province of Manitoba for which the Government is responsible.

Please refer to the Summary Financial Statements to understand and assess the Government's management of public financial affairs and provincial resources as a whole.

In accordance with Section 9 of The Auditor General Act, I have audited the special purpose statement of financial position of the Operating Fund and Special Funds of the Province of Manitoba as at March 31, 2006 and the special purpose statements of revenue and expense, calculation of balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act, accumulated (deficits) surpluses, change in net debt, and cash flow for the year then ended. These special purpose financial statements are the responsibility of the Government of Manitoba. My responsibility is to express an opinion on these special purpose financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Opinion

In my opinion, these Special Purpose Financial Statements present in all material respects, the financial position of the Operating Fund and Special Funds as at March 31, 2006, and the results of its operations and its cash flow for the year then ended in accordance with the accounting policies disclosed in Note 1 to the financial statements applied, on a basis consistent with that of the preceding year, except as described in Note 5 to these financial statements.

Manitoba

SPECIAL PURPOSE OPERATING FUND AND SPECIAL FUNDS FINANCIAL STATEMENTS - AUDITOR'S REPORT

Appendix C
(cont'd.)

Exceptions from Generally Accepted Accounting Principles

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles for the public sector (GAAP), are solely for the information and use of the Members of the Legislative Assembly for the purpose of determining compliance with the Balanced Budget, Debt Repayment and Taxpayer Accountability Act. These financial statements are not intended to be and should not be used by lenders, bond rating agencies, citizens, or anyone other than the specified users or for any other purpose. Specifically, these statements should not be used to assess the fiscal performance of the government as this information is only available in the Summary Financial Statements.

The Special Purpose Statement of Revenue and Expense along with the Special Purpose Statement of Calculation of Balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act should be analyzed in two parts. The first part, showing the calculation of Net Result for the year, has been determined using the accounting policies described in Note 1 to the Special Purpose Financial Statements. These accounting policies differ materially from Canadian GAAP as described in Note 1, and therefore do not result in fair presentation. The second part is where the Net Result for the year is adjusted as authorized by The Balanced Budget, Debt Repayment and Taxpayer Accountability Act to determine a Positive Balance as defined by the Act. These adjustments, specifically inter-fund transfers, would not be included in the Special Purpose Statement of Revenue and Expense and a Special Purpose Statement of Calculation of Balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act would not be produced had Canadian GAAP been used.

If Canadian GAAP had been used in the preparation of the Special Purpose Financial Statements, financial assets would increase by $199 million (2005-$246 million), non-financial assets would increase by $1,826 million (2005-$1,707 million), liabilities would increase by $2,390 million (2005-$2,649 million), net debt would increase by $2,191 million (2005-$2,403 million), accumulated deficit would increase by $365 million (2005-$696 million), revenue including net income from government business enterprises would increase by $2,209 million (2005-$1,871million), and expenses would increase by $2,062 million (2005-$1,854 million). As well, the effects of the non-consolidation of public school divisions on the reported assets, liabilities, revenues and expenses, and the information provided by way of notes to the financial statements cannot be determined.

Bonnie Lysyk

Winnipeg, Manitoba
July 31, 2006

Bonnie J. Lysyk, MBA, CA•CIA
Deputy Auditor General

Appendix D

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

STATEMENT OF RESPONSIBILITY

The Special Purpose Operating Fund and Special Funds financial statements are prepared under the direction of the Minister of Finance in accordance with the stated accounting policies of the Government and include a special purpose statement of financial position, a special purpose statement of revenue and expense, a special purpose statement of calculation of balance under the Balanced Budget, Debt Repayment and Taxpayer Accountability Act, a special purpose statement of accumulated (deficits) surpluses, a special purpose statement of change in net debt, a special purpose statement of cash flow, notes and schedules integral to the statements. Together, they present, in all material respects, the financial condition of the Operating Fund and Special Funds at the fiscal year end and results of their operations for the year then ended, in accordance with the accounting policies stated in Note 1 to the financial statements applied on a basis consistent with that of the preceding year, except as described in note 5 to these financial statements.

The Government is responsible for the integrity and objectivity of the Special Purpose Operating Fund and Special Funds financial statements. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets, liabilities, revenues and expenses is dependent on future events. The Government believes such estimates have been based on careful judgements and have been properly reflected in the financial statements.

The Government fulfills its accounting and reporting responsibilities, through the Office of the Provincial Comptroller, by maintaining systems of financial management and internal control. The systems are continually enhanced and modified to provide timely and accurate information, to safeguard and control the Government's assets, and to ensure all transactions are in accordance with the Financial Administration Act.

The Auditor General expresses an independent opinion on these financial statements. Her report, stating the scope of her audit and opinion, appears on the following page. The audit opinion for the 2005/06 financial statements was signed by the Deputy Auditor General.

These special purpose financial statements are tabled in the Legislature. They are referred to the Standing Committee on Public Accounts, which reports to the Legislature on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinion.

More detailed information regarding the Operating Fund and Special Funds combined financial position and operating results can be found in Volumes 2 and 3 of the Public Accounts. In addition, explanatory comments with respect to changes in revenue and expense are provided in each government department's annual report.

On behalf of the Government of the Province of Manitoba.

Ewald Boschmann
Deputy Minister of Finance

Betty-Anne Pratt

Betty-Anne Pratt
Provincial Comptroller

July 31, 2006

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF FINANCIAL POSITION

As at March 31, 2006

SCHEDULE		($ millions) 2006	($ millions) 2005
	FINANCIAL ASSETS		
	Cash and Cash Equivalents (Note 2)	605	602
	Portfolio Investments (Note 3)	537	382
1	Amounts Receivable	737	611
2	Loans and Advances	617	653
4	Trust Assets (Note 1F)	2,615	2,264
	Total Financial Assets	5,111	4,512
	LIABILITIES		
5	Borrowings	18,333	18,165
	Less: Sinking Funds (Note 4)	(2,728)	(2,703)
	Less: Debt Incurred For and Repayable By The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	(6,276)	(6,215)
		9,329	9,247
	Less: Unamortized Foreign Currency Fluctuation	(79)	(84)
	Net Borrowings	9,250	9,163
6	Accounts Payable, Accrued Charges, Provisions and Deferrals	1,574	1,352
		10,824	10,515
4	Amounts Held in Trust for Investment or Administration (Note 1F)	2,615	2,264
	Total Liabilities	13,439	12,779
	NET DEBT	(8,328)	(8,267)
	NON-FINANCIAL ASSETS (Note 1E.11)		
	Inventory	2	-
	Deferred Charge for Health Care Facilities (Note 1A4)	637	586
7	Tangible Capital Assets	1,705	1,622
		2,344	2,208
	ACCUMULATED DEFICIT	(5,984)	(6,059)

Information concerning Long Term Investments can be found on Schedule 3.
Information concerning the Government's Guarantees, Contractual Obligations, Contingencies and Pension Liability can be found in Notes 6, 7, 8 and 10

Appendix D
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF REVENUE AND EXPENSE

For the Year Ended March 31, 2006

($ millions)

	Operating Fund		Fiscal Stabilization Fund	Debt Retirement Fund	Pension Assets Fund	Other Special Funds	Total 2006	Total 2005
	Budget	Actual						
OPERATING REVENUE (Schedule 8)								
Manitoba Collections	2,663	2,698	-	-	-	6	2,704	2,587
Income Taxes	2,243	2,322	-	-	-	-	2,322	2,247
Federal Transfers	2,796	2,914	-	-	-	-	2,914	2,920
Crown Organizations	475	491	-	-	9	-	500	482
Interest Earned	-	-	15	-	61	-	76	33
	8,177	8,425	15	-	70	6	8,516	8,269
OPERATING EXPENSES (Schedules 8 & 10)	8,064	8,284	-	-	-	4	8,288	7,724
NET RESULT FOR THE YEAR	113	141	15	-	70	2	228	545
INTERFUND TRANSFERS								
Transfer to Debt Retirement Fund	(110)	(110)	-	110	-	-	-	-
Transfer for Pensions	-	-	-	(85)	85	-	-	-
Transfer from Mining Community Reserve	-	-	-	-	-	(2)	(2)	(1)
Transfer of Positive Balance to Fiscal Stabilization Fund under Section 9 (a) of the Act	-	(31)	31	-	-	-	-	-
	(110)	(141)	31	25	85	(2)	(2)	(1)
NET RESULT FOR THE YEAR AFTER INTERFUND TRANSFERS	3	-	46	25	155	-	226	544

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS SPECIAL PURPOSE STATEMENT OF CALCULATION OF BALANCE UNDER THE BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

For the Year Ended March 31, 2006

	($ millions)	
	2006	2005
Operating Fund Revenue	8,425	8,223
Operating Fund Expenses	8,284	7,718
NET RESULT FOR THE YEAR BEFORE INTERFUND TRANSFERS	141	505
INTERFUND TRANSFERS		
To the Debt Retirement Fund	(110)	(99)
POSITIVE BALANCE FOR PURPOSES OF BALANCED BUDGET LEGISLATION	31	406

Appendix D
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT
OF ACCUMULATED (DEFICITS) SURPLUSES

For the Year Ended March 31, 2006

($ millions)

	Operating Fund	**Fiscal Stabilization Fund**	**Debt Retirement Fund**	**Pension Assets Fund**	**Other Special Funds (Schedule 9)**	**Total 2006**	**Total 2005**
Accumulated (Deficits) Surpluses,							
Beginning of Year	(6,949)	486	-	382	22	(6,059)	(7,349)
Environmental Liabilities (Notes 1E.12 & 5A)	(142)					(142)	-
Tax Refunds (Note 5B)	(9)					(9)	-
Recognition of Infrastructure	-	-	-	-	-	-	1,183
Unfunded Employee Future Benefits	-	-	-	-	-	-	(234)
Long Term Disability Income Plan	-	-	-	-	-	-	(27)
Health Care Facilities Debt	-	-	-	-	-	-	(152)
Interest Accruals	-	-	-	-	-	-	(18)
Workers Compensation Claims Liability	-	-	-	-	-	-	(6)
Net Result for the Year							
after Interfund Transfers	-	46	25	155	-	226	544
Accumulated (Deficits) Surpluses,							
End of Year	(7,100)	532	25	537	22	(5,984)	(6,059)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF CHANGE IN NET DEBT

For the Year Ended March 31, 2006

	($ millions) 2006	($ millions) 2005
Annual Surplus:		
Fiscal Stabilization Fund	46	407
Debt Retirement Fund	25	22
Pension Assets Fund	155	115
	226	544
Acquisition of Tangible Capital Assets	(188)	(133)
Recognition of Infrastructure	-	(1,183)
Disposals and Write-downs	-	9
Amortization of Tangible Capital Assets	105	100
	(83)	(1,207)
Increase in Deferred Charge for Health Care Facilities	(51)	(89)
Increase in Inventory	(2)	-
Changes in Accumulated Deficit		
Environmental Liabilities (Notes 1E.12 & 5A)	(142)	-
Tax Refunds (Note 5B)	(9)	-
Recognition of Infrastructure	-	1,183
Unfunded Employee Future Benefits	-	(234)
Long Term Disability Income Plan	-	(27)
Health Care Facilities Debt	-	(152)
Interest Accruals	-	(18)
Workers Compensation Claims Liability	-	(6)
	(151)	746
(Increase) in Net Debt	(61)	(6)
Net Debt, beginning of year	(8,267)	(8,261)
Net Debt, end of year	(8,328)	(8,267)

Appendix D
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

OPERATING FUND AND SPECIAL FUNDS
SPECIAL PURPOSE STATEMENT OF CASH FLOW

For the Year Ended March 31, 2006

	($ millions)	
	2006	**2005**
Cash and Cash Equivalents Provided by (Used in)		
Operating transactions		
Net Result for the year after Interfund Transfers - Special Funds	226	544
Changes in non-cash items:		
Amounts Receivable	(126)	(52)
Valuation Allowance	(3)	4
Accounts Payable, Accrued Charges, Provisions and Deferrals	226	318
Amortization of Foreign Currency Fluctuation	5	6
Amortization of Debt Discount	7	8
Amortization of Investment Discounts and Premiums	2	(1)
Amortization of Tangible Capital Assets	103	98
Amortization of Tangible Capital Assets Charged to Special Operating Agencies	2	2
Recognition of Infrastructure	-	(1,183)
Increase in Inventory	(2)	-
Adjustment to Accumulated Deficit	(151)	746
Cash provided by operating transactions	289	490
Capital transactions		
Acquisition of Tangible Capital Assets	(188)	(133)
Disposal of Tangible Capital Assets	-	9
Cash used in capital transactions	(188)	(124)
Investing transactions		
Made	(842)	(822)
Realized	545	178
Cash used in investing transactions	(297)	(644)
Financing transactions		
Debt Issued	2,908	2,962
Debt Redeemed	(2,778)	(2,180)
Changes in Sinking Funds	69	26
Cash provided by financing transactions	199	808
Increase in Cash and Cash Equivalents	3	530
Cash and Cash Equivalents, beginning of year	602	72
Cash and Cash Equivalents, end of year	605	602

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

1. SIGNIFICANT ACCOUNTING POLICIES

A. General Basis of Accounting

The Special Purpose Financial Statements of the Operating Fund and Special Funds have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for senior Governments as recommended by the Canadian Institute of Chartered Accountants (CICA), with the following exceptions:

1) Liabilities for unfunded pension benefits have not been recorded in the Special Purpose Financial Statements. If Canadian GAAP had been used in the recording of pension transactions, liabilities and the accumulated deficit would increase by $3,967 million (2005 - $3,761 million) and expenses would increase by $206 million (2005 - $190 million).

2) The financial statements do not reflect the financial results for all of the Government business enterprises and Crown organizations comprising the Government reporting entity. The financial operations of the latter are reflected only to the extent that their operations were financed from or contributed to the Special Purpose Financial Statements. If Canadian GAAP had been used to record these transactions, financial assets would increase by $199 million (2005 - $246 million), non-financial assets would increase by $2,463 million (2005 - $2,293 million), liabilities would decrease by $1,577 million (2005 - $1,112 million), net debt would decrease by $1,776 million (2005 - $1,358 million), the accumulated deficit would decrease by $4,239 million (2005 - $3,651 million), revenue including net income from Government business enterprises would increase by $2,209 million (2005 - $1,871 million) and expenses would increase by $1,805 million (2005 - $1,575 million).

3) Material adjustments may result from changes in accounting policies or from the correction of an error which are attributable to and identifiable with prior periods. It is the Government's practice to reflect the effects of such adjustments in the accumulated deficit. Prior year balances are not restated. If Canadian GAAP had been used to record changes in accounting policies and correction of errors, the comparative figures of the financial statements and the opening balance of the accumulated deficit would have changed.

4) Prior to the 2000/01 fiscal year, individual health care facilities issued long-term debt in their own name to finance major capital acquisitions. In 2000/01, the Province began a program to finance such debt directly, taking advantage of its superior borrowing power and rates, and lowering the cost of health related borrowings for Manitoba. This debt is included as part of the Province's borrowings. The related asset for health care facilities is recorded as a deferred charge and amortized over the same period of time as the term of the debt issue. If Canadian GAAP had been used to record these transactions, the deferred charge asset would decrease by $637 million (2005 - $586 million) and the accumulated deficit would increase by $637 million (2005 - $586 million) and expenses would increase by $51 million (2005 - $89 million).

These accounting policies have been developed and are applied in accordance with the provisions of *The Financial Administration Act*, which is Chapter F55 of the Continuing Consolidation of the Statutes of Manitoba.

B. The Reporting Entity

These statements consist of the Operating Fund and Special Funds, that on a combined basis, reflect the transactions and balances of these funds.

Appendix D
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

The nature and purpose of the funds reflected in these financial statements is as follows:

Operating Fund - The Operating Fund is the vehicle through which the Government manages and controls the operations of Government departments and programs, and does not include the results of Government business enterprises and Crown organizations except to the extent that they may have received funding from the Operating Fund. It is through the Operating Fund that the Government reports on its stewardship of Central Government operations, including measurement of its results as compared to voted appropriations, and its obligations with respect to *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*.

Fiscal Stabilization Fund - This Fund was established at March 31, 1989 under the authority of *The Fiscal Stabilization Fund Act*. The purpose of the Fund is to assist in stabilizing the fiscal position of the Government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the Government may deposit in the Fund any part of the revenue or other financial assets received in the Operating Fund in any fiscal year and shall credit to the Fiscal Stabilization Fund any earnings from investment of the assets of the Fund. All or part of the Fund balance may be transferred to the Operating Fund in accordance with the provisions of the Act.

Section 9(a) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires that, if a surplus exists in a fiscal year in the Operating Fund, the Minister of Finance shall transfer an amount sufficient to bring the Fiscal Stabilization Fund to its target level as set out by *The Fiscal Stabilization Fund Act* or any greater amount that the Minister considers appropriate. The target level for the Fiscal Stabilization Fund is a minimum of 5% of the expense of the Operating Fund.

Debt Retirement Fund - This Fund was established on November 3, 1995 under the authority of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The purpose of the Fund is to assist in the orderly repayment of debt pursuant with section 8(4) of the Act. After March 31, 2000, until the Fund is wound up, the Minister of Finance is required to deposit annually in the Fund a minimum of $96 million or such greater amount as determined by the Act.

Pension Assets Fund - This Fund was established under the authority of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The purpose of the Fund is to set aside designated assets, pursuant to section 8 of the Act, for the future retirement of the Government's pension liability.

Other Special Funds:

> Mining Community Reserve - This Fund was established to assist with the welfare and employment of people who are directly affected by mine closures in Manitoba. The Lieutenant Governor in Council may transfer to this Fund each year up to 3% of the taxes collected under *The Mining Tax Act*.
>
> Quarry Rehabilitation Reserve Fund - This Fund was established to assist in the rehabilitation of quarries deemed to be depleted. A levy of 10 cents per metric ton of all aggregate quarry mineral production in Manitoba is paid into the Fund each year.
>
> Other Funds - Other funds included reflect the transactions of the Abandonment Reserve Fund, the Farm Machinery and Equipment Act Fund, the Land Titles Assurance Fund, Manitoba Law Reform Commission, Veterinary Science Scholarship Fund, Mining Rehabilitation Reserve, Manitoba Trucking Productivity Improvement Fund, and Victims Assistance Fund.

The combined financial statements of the above funds are also included in the Government's Summary Financial Statements which are presented separately.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix D
(cont'd.)

C. Gross Accounting Concept

Revenues and expenses are recorded in gross amounts with the following exceptions:

1) Refunds of revenue are treated as reductions of current year revenue.

2) Decreases in valuation allowances previously provided are treated as reductions to expense.

3) Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments, loans and advances to Crown organizations and Government business enterprises are recorded as a reduction of debt servicing expense.

D. Modified Accrual Accounting

The revenues and expenses of the Government are recorded on an accrual basis with the following exceptions:

1) **Government of Canada Receipts –** Transfer payments from the Government of Canada include all accruals determined before June 15 each year for current year entitlements that have been authorized by March 31st, that can be reasonably estimated and for which any eligibility criteria have been met.

The Province's share of individual and corporation income tax is recorded based upon cash receipts to March 31 plus an accrual of adjustments determined before June 15 each year.

2) **Other Revenue –** All other revenues are recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Recoveries of the debt servicing costs on self-supporting debt and revenue earned on investments, loans and advances to Crown organizations and Government business enterprises are recorded as a reduction of debt servicing expense.

3) **Expenses –** All expenses incurred for goods or services received are recorded on an accrual basis. Exceptions to this policy involve the acquisition of inventories acquired for the Government's use that are reflected as expenses when incurred as well as item 4) noted below.

Expenses include provisional amounts recorded in anticipation of future costs which are quantifiable and have been identified as obligations. Government transfers are recognized as expenses in the period during which the transaction is authorized and any eligibility criteria are met.

4) **Pension Benefits –** The annual cost recorded is based on the Government's share of pensions paid to retired employees, teachers and Members of the Legislative Assembly, as well as current contributions to Registered Retirement Savings Plan accounts and tax paid trusts on behalf of MLAs and employees who are pensionable outside of the Civil Service Superannuation Plan. The Government does not record its liability for the unfunded cost of pension benefits earned by employees, teachers, judges and Members of the Legislative Assembly.

E. Liabilities and Assets

1) All borrowings are expressed in Canadian dollars and are shown net of sinking funds, unamortized debt issue costs and debt of the Province of Manitoba held as provincial investments. Foreign borrowings are converted at the exchange rate in effect at March 31 adjusted for any forward foreign exchange contract entered into for settlement after the fiscal year end. Discounts or premiums, and commissions incurred at the time of the issue of debt are amortized monthly to debt servicing expense over the term of the debt.

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(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

2) The amount of the liabilities for severance, Long Term Disability Income Plan liability and workers compensation claims is based upon actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations because actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

3) The year end translation adjustments reflecting the foreign currency fluctuation from the value at the issue date are recorded through the unamortized foreign currency fluctuation account, and amortized monthly to debt servicing expense over the remaining term of the debt. The unamortized portion of foreign currency fluctuation also reflects the gains or losses on the conversion of foreign currency debt called prior to maturity using the rates in effect at the time of the call and these gains and losses are amortized over the original remaining term of the debt or over the term of the replacement issue, whichever is shorter.

4) Loans, advances and long-term investments are recorded at cost less valuation allowances. A valuation allowance is provided to reduce the value of the assets to their estimated realizable value or to reflect the impact of significant concessionary terms on outstanding loans. Valuation allowances are made when the collection is considered doubtful or when the value of the investments is impaired. Premiums that may arise from the early repayment of loans or advances are reflected as deferred revenue and are amortized monthly to debt servicing expense over the term of the related debt issue.

5) Investments denominated in foreign currency are translated to the Canadian dollar equivalent at the exchange rate in effect at March 31, unless the rate of exchange or a forward foreign exchange contract fixing the value has been negotiated, in which case that rate or amount is used. The year end investment translation adjustments reflecting the foreign currency fluctuation between year ends are amortized monthly over the remaining life of the investment and included with debt servicing expense. Expenses and other transaction charges incurred on the purchase of investments during the year are charged to debt servicing expense. Those expenses incurred in foreign currency are translated at the exchange rate in effect on the transaction date.

6) Premiums paid on interest rate options are amortized monthly starting from the date the income is received over the period of the applicable agreement. If the option is exercised, the premium is amortized over the period from the date of receipt to the maturity date of the agreement. If the option is not exercised, any unamortized premium will be immediately taken into revenue.

7) The cost of tangible capital assets purchased includes the purchase price as well as costs such as installation costs, design and engineering fees, survey and site preparation costs and other costs incurred to put the asset in service. The cost of tangible capital assets constructed by the Province includes all direct construction costs such as materials, labour, design, installation, engineering, architectural fees, and survey and site preparation costs, as well as overhead costs directly attributable to the construction activity such as licenses, inspection fees, indirect labour costs, and amortization expense of any equipment which was used in the construction project. Any carrying cost associated with the development and construction of tangible capital assets is included in cost for projects whose cost exceeds $20 million.

A tangible capital asset received as a donation is recorded at its fair market value with the same amount being shown as a deferred revenue which is amortized to revenue on the same basis as the asset is amortized. Where the acquisition cost of a tangible capital asset is shared with other jurisdictions under a shared cost agreement, such contributions are deducted from the cost of the related asset with any amortization calculated on the net amount. Certain assets which have historical or cultural value including works of art, historical documents as well as historical and cultural artifacts are not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made. Intangibles assets and items inherited by right of the Crown, such as Crown lands, forests, water, and mineral resources are not recognized in Government financial statements.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

8) Tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

General Tangible Assets:

Land	Indefinite
Buildings and Leasehold Improvements	
Buildings	25 to 40 years
Leasehold Improvements	Life of lease
Vehicles and Equipment	
Vehicles	5 years
Aircraft and vessels	5 to 24 years
Machinery, equipment and furniture	10 years
Maintenance and road construction equipment	15 years
Computer hardware and software	4 to 15 years

Infrastructure Assets:

Land	Indefinite
Land Improvements	30 years
Transportation	
Bridges and Structures	40 years
Provincial Highways, Roads and Airstrips	10 to 40 years
Dams and Water Management Structures	40 years

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available to be put into service.

9) During the 2000/01 fiscal year, the Federal Government created a Health Equipment and Infrastructure Fund for investment in new medical equipment. The Province's share of this fund was $37 million. Funding from the Health Equipment and Infrastructure Fund has been treated as deferred revenue and will be brought into revenue based on actual purchases of equipment according to a defined schedule.

During the 2002/03 fiscal year, the Federal Government created a Diagnostic and Medical Equipment Fund for investment in new medical equipment. The Province's share of this fund was $54 million. Funding from the Diagnostic and Medical Equipment Fund has been treated as deferred revenue and will be brought into revenue based on actual purchases of equipment according to a defined schedule.

10) Guarantees by the Government are made through specific agreements or legislation to repay promissory notes, bank loans, lines of credit, mortgages and other securities. Provision for losses on guarantees are recorded when it is likely that a loss will occur. The amount of the loss provision represents the Government's best estimate of future payments less recoveries.

11) In the public sector, recognition and measurement of tangible capital and other non-financial assets are based on their service potential. Generally, such assets do not generate future net cash inflows. Therefore, these assets will not provide resources to discharge the liabilities of the Government. For non-financial assets, the future economic benefit consists of their capacity to render service to fulfill the Government's objectives.

12) Effective for the 2005/06 fiscal year, the Government adopted an accounting policy regarding the recognition and measurement of environmental liabilities. An environmental liability for contaminated sites is recorded when contamination is identified, and when the Government is obligated or likely to become obligated to incur remediation costs due to reasons of public health and safety, contractual arrangements, or compliance with environmental standards which are set out in any act or regulation (federal, provincial, municipal) recognized by the Government.

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(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

The liability is based upon remediation costs determined on a site-by-site basis, measured at incremental direct costs, reduced by estimated recoveries from third parties, and discounted where possible to reflect the time value of money.

For liabilities arising from contaminations or obligating events on or before March 31, 2005, there is a transition period (April 1, 2006 to March 31, 2009) to identify and record such liabilities. These liabilities will be recorded as an increase to the accumulated deficit until March 31, 2009. Subsequent to that, any past liability not previously recorded or sufficiently provided for will be recorded as an expense.

For current liabilities arising from contaminations or obligating events after March 31, 2005, the amounts are recorded as an expense when identified.

F. Amounts Held in Trust for Investment or Administration

These amounts primarily represent sinking funds and surplus cash of Government business enterprises and Crown organizations on deposit with the Minister of Finance for investment. Deposits of surplus cash funds not required to be specifically invested are pooled with other available funds of the Operating Fund for investment purposes and are accorded a market rate of interest. Sinking fund contributions made by Government business enterprises, Crown organizations and others in respect of their direct debt are deposited with and specifically invested by the Minister of Finance. These investments are recorded at cost.

G. Measurement Uncertainty

Estimates are used to accrue revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable possible amount, as there is whenever estimates are used.

Measurement uncertainty in these financial statements exist in the accrual of individual, corporate income taxes, Health Transfers and Canada Social Transfer entitlements, Federal Government transfers under Bill C-48, accruals for pension obligations, accruals for environmental obligations and allowances for doubtful loans and advances and provision for losses on guarantees.

The nature of the uncertainty related to the accrual of health and social transfer payments from the Federal Government and individual and corporate income taxes arises because of the possible differences between the estimates for the economic factors used in calculating the accruals and actual economic results. Uncertainty related to Federal Government transfers under Bill C-48 relates to the ultimate determination of the transfer amounts being dependent upon audited current year financial results of the Federal Government. Dependent upon these final results, the transfer that the Province is eligible for could range from $0 to $98 million (recorded $49 million as current year's revenue). The uncertainty related to accruals for pension obligations arises because actual results may differ significantly from the Province's best estimates of expected results based on variables such as earnings on the pension investments, salary increases and the life expectancy of claimants. The uncertainty related to the accrual of environmental obligations is based upon the identification of all sites where environmental damages have occurred that are the Province's responsibility to mitigate and the quantification of what the actual liability will be based upon impact studies. Uncertainty concerning the allowance for doubtful loans and advances is based upon actual collectibility and changes in economic conditions.

While management's best estimates have been used for reporting items subject to measurement uncertainty, it is possible that changes in future conditions in the near term could require a material change in the valuation of the reported amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix D
(cont'd.)

2. CASH AND CASH EQUIVALENTS

Cash equivalents are recorded at cost. Market values approximate cost. Investment revenue earned on cash equivalents during the year was $21 million (2005 - $9 million). Cash and cash equivalents include cash and short-term investments that can be converted to cash.

3. PORTFOLIO INVESTMENTS

Portfolio investments include amounts invested with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. These investments represent funds set aside for the future retirement of the pension liability. These investments earn the respective Fund's annual rate of return and reflect both the realized gains (losses) on sale of investments and unrealized market gain (loss) for the year. Investment income earned for the year was $61 million (2005 - $30 million). The fair value of these investments as at March 31, 2006 was $537 million (2005 - $382 million). These Funds are balanced funds and the investments consist primarily of cash equivalents, equities, bonds, mortgages and real estate.

4. SINKING FUNDS

Sinking funds are recorded at the lower of cost and market value. As at March 31, 2006, sinking funds had a cost of $2,728 million (2005 - $2,703 million) and a market value of $2,742 million (2005 - $2,803 million). Investment revenue earned on the sinking funds during the year was $204 million (2005 - $219 million).

Section 60 of *The Financial Administration Act* authorizes the Minister of Finance to provide for the creation and management of sinking funds for the orderly retirement of debt. The Minister of Finance may authorize, by directive, the amount, if any, to be allocated to the Province's sinking fund. The Province's sinking fund currently provides for the repurchase of foreign debt and the pre-funding of maturing debt issues. In addition, the Province's sinking fund is invested principally in securities issued or guaranteed by Canadian provinces.

The sinking funds are allocated as follows:

	($ millions)	
	2006	**2005**
Province of Manitoba	2,140	2,122
Manitoba Hydro-Electric Board	586	579
University of Manitoba	2	2
Total sinking funds	2,728	2,703

Sinking funds are invested as follows:

	($ millions)	
	2006	**2005**
Cash and cash equivalents	223	251
Portfolio investments	2,505	2,452
	2,728	2,703

5. ADJUSTMENTS TO ACCUMULATED DEFICIT

A. Environmental Liabilities

Implementation of the new accounting policy with respect to environmental liabilities (Note 1E.12) has resulted in various site assessments. Based upon the results to March 31, 2006, the Government has

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(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

accrued environmental liabilities in the net amount of $142 million (gross - $189 million) which includes certain significant amounts discounted at rates from 0 to 4.9%. A breakdown of these liabilities by department is as follows:

	($ millions)
Aboriginal and Northern Affairs	1
Conservation	39
Industry Economic Development and Mines	66
Transportation and Government Services	36
	142

These liabilities, all related to contaminations or obligating events on or before March 31, 2005, have been recorded with a corresponding increase in accumulated deficit of $142 million.

B. Tax Refunds

During the year, the Government identified and corrected an accounting error related to the determination of taxation revenue in the 2004/05 fiscal year. Certain tax refunds payable were incorrectly omitted, resulting in an overstatement of the 2004/05 taxation revenue. Correction of this error has resulted in an increase in accumulated deficit of $9 million.

6. GUARANTEES

The Government has guaranteed the repayment of debt, promissory notes, bank loans, lines of credit, mortgages and other securities issued by Government business enterprises and Crown organizations. Debt guaranteed by the Government is guaranteed as to principal and interest until the debt is matured or redeemed. The authorized and outstanding guarantees are as follows:

		($ millions)	
	Authorized	**2006**	**2005**
Debt issued by Government business enterprises (Note a)		485	654
Manitoba Grow Bonds		5	6
Promissory notes, bank loans, lines of credit and other			
Assiniboine Community College	2	-	-
Manitoba Business Start Program (Note b)	5	1	1
Manitoba Housing and Renewal Corporation	2	-	-
Manitoba Opportunities Fund Ltd.	98	75	39
Manitoba Student Financial Assistance Program (Note c)	20	7	8
Red River College	5	-	-
Rural Entrepreneur Assistance Program (Note b)	16	4	4
University College of The North	2	-	-
Venture Manitoba Tours Ltd.	-	-	9
Winnipeg Football Club – 2006 Grey Cup	2	-	-
Miscellaneous	2	2	1
		579	722
Less: Sinking funds		-	8
Total guarantees outstanding		579	714

Provision for future losses on guarantees in the amount of $10 million (2005 - $17 million) has been recorded in the accounts. The provision for losses on guaranteed loans is determined annually by a review of individual guarantees. The provision represents the best estimate of probable claims against the guarantee. Where circumstances indicate the likelihood of claims arising, the provisions are established for those loan guarantees.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix D
(cont'd.)

Note a – The Government guarantees and administers Manitoba HydroBonds. The bonds carry fixed and variable coupon rates that range from 3.1% to 10.0%. Manitoba HydroBonds are redeemable at the option of the holder.

Note b – The Government provides guarantees on new and expanding small or home business loans, with a five year term.

Note c – The Government guarantees three types of student loans issued in the past twelve years:

i. Guaranteed loans: issued by the Canadian Imperial Bank of Commerce (CIBC) from April 1, 1993 to December 31, 1994. These loans are fully guaranteed should the loan be deemed to be in default.
ii. Limited risk loans: issued by the CIBC from January 2, 1995 to December 31, 1997 and issued by the Royal Bank from June 2, 1997 to July 31, 2000. The Government only guarantees those loans in default that have been issued to credit abusers, insolvent creditors and minors.
iii. Non-risk loans: issued by the Royal Bank from August 1, 2000 to July 31, 2001. The Government has agreed to guarantee and purchase any loan deemed to be in default.

7. CONTRACTUAL OBLIGATIONS

A. Operating Obligations

Funding is provided annually from appropriations of the Operating Budget.

As at March 31, the Government has obligations under operating contracts and agreements in the amount of $33 million (2005 - $60 million). The Government also has obligations under long-term contracts regarding tangible capital assets as follows:

	($ millions) 2006	2005
Future obligations:		
Infrastructure and capital grants	10	7
Rental of tangible capital assets	91	90
	101	97

B. Capital Obligations

Funding is provided annually from appropriations of the Capital Budget.

The Government has contractual obligations that cover the purchase or development of tangible capital assets. These obligations as at March 31 are as follows:

	($ millions) 2006	2005
Buildings	3	2
Equipment	-	1
Transportation	34	14
Dams and Water Management Structures	2	2
	39	19

The Government has undertaken to expand the Red River Floodway. Through the Manitoba Floodway Authority, the Government is a party to a funding agreement with the Government of Canada for a $240 million (2005 - $240 million) expansion project and has committed to provide $120 million (2005 - $120 million) towards the expansion project. Subsequent to the year end a funding amendment was reached

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(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

between the Government of Canada and the Government of Manitoba increasing the joint contribution by $84 million to a total of $324 million.

8. CONTINGENCIES

The Government has been named in various legal actions, including treaty land entitlements. No provision has been made at March 31, 2006 in the accounts where the final results are uncertain.

A. Disaster Financial Assistance

A provision has been made at March 31, 2006 for all flood claims and other disaster financial assistance. The final amount of the Government's share of these costs under shared cost agreements is uncertain at the date these financial statements were issued.

B. Northern Development Projects

The Province is contingently liable for legal claims associated with past Manitoba Hydro-Electric Board related northern development projects. The Province has provided for all claims that have been settled to date. The outcome of unsettled claims is not determinable at this time.

C. Canadian Blood Services

Most provinces, including Manitoba, are members of, and provide funding to, Canadian Blood Services, which operates the Canadian blood system. The March 31, 2005 audited financial statements of Canadian Blood Services indicate that a wholly owned subsidiary, CBS Insurance Company Limited, provides for the contingent liabilities for risks related to operations of the blood system. The actuarially determined provisions for future insurance claims, reported and unreported, related to insured events that occurred prior to March 31, 2005 is $174 million (2004 - $163 million). The related assets as at March 31, 2005 total $208 million (2004 - $187 million). The subsidiary also had a re-insurance contract for additional coverage of $750 million.

Based upon the above, as at March 31, 2005, the Province of Manitoba's share of the provision for futures claims is offset with designated assets which at that point exceed the provision. In addition, there is re-insurance to cover an additional $750 million in claims of insured events occurring on or before March 31, 2005. March 31, 2006 figures are not available for comparison.

9. TREATY LAND ENTITLEMENT OBLIGATIONS

To meet Manitoba's obligation under treaty land entitlement (TLE) agreements, approximately 195,908 acres of provincial Crown land have been transferred to the Government of Canada (Canada) for First Nations.

This transfer will help strengthen the economic development of these First Nations. Manitoba continues to work with Canada and First Nations on a number of initiatives leading to greater self-government in areas such as land and child and family services delivery.

Manitoba's obligations under the Treaty Land Entitlement Framework Agreement requires the setting aside of 985,949 acres of Crown land. To date, 871,428 acres have been selected by the Entitlement First Nations. The Crown lands will be transferred according to the Natural Resources Transfer Agreement, including mines and minerals and other interests normally reserved for the Province under the *Crown Land Act* or any other statute.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

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(cont'd.)

10. PENSION LIABILITY

The Government supports six separate pension plans. These include the Civil Service Plan (CSP), the Teachers' Plan (TP), the Members of the Legislative Assembly Plan (MLAP), the Legislative Assembly Pension Plan (LAPP), the Judges' Supplemental Pension Plan, and the Winnipeg Child and Family Services Employee Benefits Retirement Plan (WCFSP).

The Government is required, under the amended provisions of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*, to set aside funds beginning in 2000/01, to address the Government's unfunded pension liability. The minimum annual contribution must be sufficient to equal the contributions made by employees and teachers hired on or after April 1, 2000. While the minimum contribution for the year ended March 31, 2006 was $21 million (2005 - $17 million), the Government set aside $85 million (2005 - $79 million) in the Pension Assets Fund. These funds are separately invested and maintained in trust accounts with Civil Service Superannuation Fund (CSSF) and Teachers' Retirement Allowances Fund (TRAF) for the Government and are increased by the rate of return of the funds. The Pension Assets Fund's balance as at March 31, 2006 was $537 million (2005 - $382 million).

The actuarial valuations were based on a number of assumptions about future events, such as interest rates, wage and salary increases, inflation rates and rates of employee turnover, disability and mortality. Information about the economic assumptions used in the most recent actuarial valuations is provided below. Demographic assumptions used in the valuations reflect the experience of the Plans.

Plan	Latest Valuation	Real Rate of Return	Inflation Rate	Investment Rate of Return
Civil Service	December 31, 2004	4.00%	2.50%	6.50%
Teachers'	January 1, 2004	4.25%	2.50%	6.75%
MLA	March 31, 2003	4.00%	2.75%	6.75%
LAPP	March 31, 2005	3.25%	2.75%	6.00%
Judges' Supplemental	March 31, 2003	3.25%	2.75%	6.00%
WCFSP	December 31, 2004	3.50%	2.50%	6.00%

During the year, an increase in employee contribution rate of 1.1% was approved for the Teachers' Plan. No other amendments were made to any of the Plans.

In accordance with the terms of an agreement between the Province and the Special Operating Agencies (SOAs) in 2002, the SOAs transferred to the Province funds equal to their unfunded pension liability as determined by actuarial valuations, and thereafter have provided the Province annually, with an amount equal to the employees' annual pension contributions. In exchange, the Province has assumed the unfunded pension liability for SOA employees. Because the Province does not recognize the unfunded pension obligation in the Special Purpose Financial Statements, these funds have been recorded as revenue. $2 million was recorded as revenue in the Pension Assets Funds for the current year (2005 - $2 million). The cumulative funds received by the Province under this agreement as at March 31, 2006 are $15 million (2005 - $13 million).

A. Civil Service Plan

The Civil Service Superannuation Act (CSSA) established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government through the Civil Service Superannuation Fund (CSSF).

As at March 31, 2006, the CSP had approximately 28,200 (2005 - 28,000) participants including active members, retired employees and former employees with entitlements.

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EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Certain amendments to the CSSA were made in 1992 which required that the CSSF establish and fund a separate account in an amount sufficient to cover the Government's share of pension costs attributable to the 1992 amendments to the CSSA. The CSSF account maintained on behalf of the Government at March 31, 2006, was $44 million (2005 - $38 million).

Effective December 15, 2000, the CSP was amended to include improved benefits. The cost of the plan amendments was fully funded from actuarially determined employee surpluses with no additional cost to the employer. The following describes the current terms of the CSP, with the previous terms indicated within brackets.

The lifetime pension calculation equals 2% of a member's best five years average yearly pensionable earnings multiplied by pensionable service, minus 0.4% (previously 0.6%) of the average Canada Pension Plan (CPP) earnings for the same period multiplied by pensionable service since January 1, 1966.

The CSSA requires that employees contribute 6.0% (previously 5.1%) on pensionable earnings up to the CPP maximum earnings and 7.0% of pensionable earnings above the maximum. 89.8% of contributions are used to fund basic benefits and 10.2% of contributions are allocated for indexing benefits. Contributions continue until the employee's retirement or other termination from service. Employee contributions for the year ended March 31, 2006 amounted to $52 million (2005 - $49 million).

Indexing benefits are not guaranteed and are paid only to the extent that the indexing adjustment account in CSSF can finance one-half of cost-of-living increases granted. The maximum annual adjustment is limited by legislation to two-thirds of the increase in the consumer price index for Canada.

The Government does not make contributions to the CSSF during employees' service. By legislation, however, it is required to pay 50% of the pension disbursements made from the CSSF. For the year ended March 31, 2006, payments of $71 million (2005 - $64 million) were made to the CSSF.

An actuarial report was completed for CSSF as of December 31, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability has been calculated to be $1,715 million as at March 31, 2006 (2005 - $1,623 million), which includes net unamortized actuarial gains of $14 million (2005 - $19 million). The increase in liability includes current year interest of $115 million (2005 - $99 million).

B. Teachers' Plan

The Teachers' Pensions Act (TPA) established a defined benefit plan to provide pension benefits to teachers who have taught in public schools in Manitoba.

As at March 31, 2006, the Teachers' Retirement Allowances Fund (TRAF) had approximately 32,200 (2005 - 31,800) participants including active members, retired teachers and former teachers with entitlements.

The lifetime pension calculation is based upon the lesser of A or B:

A) The years of service prior to July 1, 1980, multiplied by 2% and the average salary of the best 7 of the final 12 years of service and years of service after July 1, 1980, multiplied by 2% and the average salary of the best 5 of the final 12 years of service;

less

The years of service from January 1, 1966, to July 1, 1980, multiplied by .6% and the average annual salary up to the yearly maximum pensionable earnings for the same period and years of service after July 1, 1980, multiplied by .6% and the annual salary up to the yearly maximum pensionable earnings for the same period.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

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(cont'd.)

B) 70% of the weighted average annual salary of the member in the 7 and 5 year periods used above. The TPA requires that teachers contribute 6.8% (prior to September 1, 2005 - 5.7%) on pensionable earnings up to the CPP maximum earnings, and 8.4% (prior to September 1, 2005 - 7.3%) on pensionable earnings above the maximum. 83.4% of contributions are used to fund basic benefits and 16.6% of contributions are allocated for indexing benefits. Contributions continue until the teacher's retirement or other termination from service. Teacher contributions for the year ended March 31, 2006, amounted to $61 million (2005 - $52 million).

Indexing benefits are not guaranteed and are paid only to the extent that one half of the pension adjustment does not result in an unfunded pension liability in TRAF.

The Government does not make contributions to TRAF during teachers' service. By legislation, however, it is required to pay 50% of the pension disbursements and other disbursements made by TRAF as provided for in the TPA. For the year ended March 31, 2006, payments of $115 million (2005 - $108 million) were made to TRAF.

An actuarial report was completed for TRAF as of January 1, 2004, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability has been calculated to be $2,189 million as at March 31, 2006 (2005 - $2,078 million), which includes unamortized actuarial losses of $82 million (2005 - $90 million). The increase in liability includes current year interest of $145 million (2005 - $138 million).

C. Members of the Legislative Assembly Plan

The pension plan for Members of the Legislative Assembly (MLAs) is established and governed by *The Legislative Assembly Act* (LAA). For MLAs elected prior to the dissolution of the Assembly of the 35th Legislature, the LAA provides for defined pension benefits based on years of service to April, 1995. For those elected after the 35th Legislature in April 1995, the LAA provides for matching contributions. As at March 31, 2006, there are 115 (2005 - 116) plan members who are entitled to receive future pension benefits in accordance with the LAA.

The calculation for defined pension benefits is equal to 3% of the average annual indemnities for the last five years served as a member or all the years served if less than five, multiplied by the number of years of pensionable service up to April 1995. These entitlements are fully indexed to cost of living increases.

An actuarial report was completed for the MLA plan as of March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's net liability has been calculated to be $32 million as at March 31, 2006 (2005 - $33 million), which includes unamortized actuarial gains of $3 million (2005 - $4 million). The change in liability includes current year interest of $2 million (2005 - $2 million).

Under the matching contributions provisions, MLAs may contribute up to 7% of their remuneration toward a Registered Retirement Savings Plan (RRSP) of their choice. The Government matches the member's contributions on a current basis, consequently, there is no liability for past service benefits under this component of the plan. In the event that a member withdraws money from the RRSP while an active member of the Legislative Assembly, the Government's contribution would be refundable.

D. Legislative Assembly Pension Plan

The Members' Retirement Benefits Regulation of *The Legislative Assembly Act* established a defined benefit plan, effective April 1, 2004 that provides pension benefits to eligible Members of Legislative Assembly (MLA) who elect to participate in the plan. The following persons may elect to become members of the plan:

a) a person who is an MLA when the plan is registered;
b) a person who becomes an MLA after the plan is registered

c) a person who
  i) was an MLA on May 2, 2003, and has not since been re-elected, and
  ii) wishes to purchase a period of pensionable service in respect of his or her membership in the Assembly during the period from April 25 1995, to June 2, 2003.

The calculation of pension benefits under the plan is determined by the following formula:

$$2\% \times S \times Y$$

In this formula:

S is the average of the best five-year annual salaries received by the member during the years for which he or she accrued pensionable service or, if less than five years the average of the annual salaries for that period.

Y is the lesser of
  (i) 35, and
  (ii) the total number of years of pensionable service

The pension is reduced by an amount equal to 0.25% times the number of months before the member's 60th birthday that the first pension payment is made. These entitlements are indexed to 2/3 of cost of living increases.

Participation in the plan is voluntary. For existing and eligible former MLAs, there is a six month time limit placed on the decision of whether to join the plan commencing once the Pension Commissioner establishes Regulations respecting his decisions. The same six month option period is to be made available for newly elected MLAs. Employee contributions are deducted at 7% of the total annual indemnity and allowance for MLA expenses. The balance of the current service cost, and any other special payments, are to be paid by the Province.

As at March 31, 2006 there were three members contributing to the plan, but the pension fund has not been set up as of that date and the members' and employer's contributions are being held in trust.

An actuarial report was completed for the Legislative Assembly Pension Plan as at March 31, 2005, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's liability for accounting purposes has been projected by the actuary to be $1.2 million as at March 31, 2006.

E. Judges' Supplemental Pension Plan

The supplemental pension benefit for judges was determined to be the difference between the total pension benefits for judges, including the amendments introduced by Judicial Compensation Committees, and the formula pension available under the *Civil Service Superannuation Act* (CSSA) as described above in note 10A.

The present supplemental pension benefit for judges was effective July 1, 1992. It was based upon the first Judicial Compensation Committee report of June 7, 1991. Since that time, four successive Judicial Compensation Committees have been duly appointed and amendments have been implemented to the supplemental benefits available under the Judges' Supplemental Pension Plan.

The current supplemental pension, including amendments introduced by the most recent Judicial Compensation Committee, is summarized as follows:

- The supplemental pension plus the pension provided under the CSSA results in an accrual rate of 3.00% for each year of service as a judge,
- A cap of 70% of earnings on the combined judge's supplemental pension and Civil Service Superannuation Pension,
- The overall limit that the judge's supplemental service not exceed 23.5 years.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

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As at March 31, 2006, there are 63 (2005 - 61) plan members who are entitled to receive future pension benefits in accordance with the Plan.

An actuarial report was completed for the Judges' Supplemental Pension Plan as at March 31, 2003, which determined the Government's pension liability on an indexed basis. The report provides a formula to update the liability on an annual basis. The Government's liability for accounting purposes has been calculated to be $26 million as at March 31, 2006 (2005 - $23 million). The increase in liability includes current year interest of $1 million (2005 - $1 million).

F. Winnipeg Child and Family Services Employee Benefits Retirement Plan

The Winnipeg Child and Family Services Employee Benefits Retirement Plan (the WCFSP) was established effective December 29, 2003. The WCFSP applies to employees of the former Winnipeg Child and Family Services who transferred to the Department of Family Services and Housing and the terms apply to those who retire or terminate employment on or after December 29, 2003. These employees were previously members of the United Way Agencies' Employee Benefits Retirement Plan (UWARP). Under a Special Pension Transfer Agreement, the services and benefits earned by those employees were transferred from UWARP to the WCFSP.

At December 31, 2005, the WCFSP had 312 active and deferred members (2004 - 634) and 139 pensioners (2004 - 133).

The lifetime pension calculation equals 2% of the member's highest average pensionable earnings in any three non-overlapping periods of 12 consecutive months, less 0.6% of the average CPP earnings for the same period multiplied by years of pensionable service.

Members are required to contribute 4.5% of pensionable earnings up to the CPP maximum and 6% on pensionable earnings over the maximum.

The employer is required to make monthly contributions actuarially determined to provide for the normal cost of the benefits accruing to members and to provide for the proper amortization of any unfunded liability or solvency deficiency. Currently that contribution has been established at an amount equal to employee contributions. In addition, the Government made a commitment to make payments to cover an estimated solvency deficiency of $1.2 million (2005 - $1.9 million). This amount has been accrued in these statements. With payment of this deficiency, the plan is expected to be fully funded as at March 31, 2007.

The WCFSP will reflect the pension benefits earned by its members for service until June 27, 2004. No further pensionable service entitlements will accrue in the WCFSP after June 27, 2004. Subsequent to June 27, 2004, the active members of the WCFSP will become members of the Civil Service Plan (CSP) and will begin earning pension benefit entitlements under the CSP. The pension benefits for all future service of the former WCFSP members will accrue under the CSP.

An actuarial report was completed for the Winnipeg Child and Family Services Plan as at December 31, 2004, by Ellement & Ellement Ltd. The Plan has a going concern surplus of $0.8 million and the solvency ratio of 96.8% at the valuation date.

11. LONG TERM DISABILITY INCOME PLAN

The Government guarantees payments of long term disability benefits for all employees covered by the Long Term Disability Income Plan that was established on April 1, 1984. An actuarial valuation report was completed for the Long Term Disability Plan as of September 1, 2003 with projections to March 31, 2004 and March 31, 2005 which determined the Government's liability. The report provides a formula to update the liability on an annual basis. The Government's actuarially determined liability for accounting purposes as at March 31, 2006 was $30 million (2005 - $28 million).

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EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

12. SEVERANCE PAY OBLIGATIONS

The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group. An actuarial report was completed for the severance pay liability as of March 31, 2005. The resulting actuarial loss of $5 million is being amortized over the 15 year expected average remaining service life of the employee group. In addition, the report provides a formula to update the liability on an annual basis. The Government's actuarially determined net liability for accounting purposes as at March 31, 2006 was $229 million (2005 - $225 million).

13. EXPENSES IN EXCESS OF LEGISLATIVE AUTHORITY

The budget estimate amounts disclosed in the Special Purpose Statement of Revenue and Expense (originally published in the Estimates of Expenditure) exclude $269 million in supplemental estimates and special warrants. The original budget estimate amounts plus the $269 million in supplemental estimates and special warrants becomes the revised estimates, against which expenses in excess of Legislative Authority is determined.

Based upon the revised estimates, the following voted appropriations were over-expended as a result of adjustments after March 31, 2006.

	($ millions)
Agriculture, Food and Rural Initiatives	
Risk Management and Income Support Programs	37
Education, Citizenship and Youth	
Support to Schools	3
Justice	
Criminal Justice	2

14. TRANSFER FOR DEBT RETIREMENT AND PENSION OBLIGATIONS

The Government transferred $110 million (2005 - $99 million) to the Debt Retirement Fund from the Operating Fund for the specific purpose of reducing general purpose debt and pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. The transfer was made in accordance with subsection 8 (4) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The Government transferred $85 million (2005 - $79 million) from the Debt Retirement Fund for the specific purpose of providing for the future retirement of pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. This transfer was made in accordance with subsection 8 (6) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The balance in the pension assets fund as at March 31, 2006 was $537 million (2005 - $382 million).

Subsection 8 (6) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires the balance in the Debt Retirement Fund to be transferred to the Operating Fund at least once every 5 years for the purpose of reducing general purpose debt. The most recent transfer, in the amount of $202 million, was made in the 2004/05 fiscal year.

15. BALANCED BUDGET LEGISLATION

Section 6 of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* requires the Minister of Finance to report on compliance with the Act in the audited special purpose financial statements of the Operating Fund for each fiscal year. The Special Purpose Statement of Calculation of Balance under the Balanced Budget,

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

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Debt Repayment and Taxpayer Accountability Act shows a positive balance of $31 million. Using the disclosed basis of accounting, the Government is therefore in compliance with the Act.

16. DEBT SERVICING

Debt servicing expense totals $766 million (2005 - $731 million) which is net of interest recoveries from Government business enterprises of $474 million (2005 - $436 million).

Net debt servicing expense is disclosed in the financial statements in Schedule 8 as $260 million (2005 - $241 million) representing net debt servicing costs and is net of amounts charged to the departments, as well as net of interest recoveries from Crown organizations including guarantee fees and interest revenue earned on investments including sinking funds. These recoveries and allocations total $415 million (2005 - $405 million). The disclosed $260 million (2005 - $241 million) is also net of debt servicing cost of $91 million (2005 - $85 million) allocated to departments for the imputed cost to finance the purchase or construction of tangible capital assets.

Schedule 10 discloses separately net debt servicing costs of $260 million (2005 - $241 million) and the debt servicing costs of $91 million (2005 - $85 million) charged to the departments for the imputed cost of financing the purchase or construction of tangible capital assets.

17. AMOUNTS DUE TO THE FEDERAL GOVERNMENT

The March 31, 2003 financial statements disclosed that the net impact of the federal settlement related to the Federal Accounting Error for the period of 1997 to 1999 was a $91 million loan payable owing to the Federal Government over a ten-year period commencing in 2004/05. As at March 31, 2006, this loan payable has been reduced to $71 million (2005 - $80 million) by offsetting an adjustment to unapplied taxes and the payment of the annual instalment of $9 million.

To offset negative adjustments to the 2004 Equalization payments, the Federal Government provided to the Province a net loan payable of $38 million. Repayment of this loan payable is scheduled to begin in April, 2006 and continue over a five year period. Similarly, to offset negative adjustments to the 2004 Canada Health and Social Transfer (CHST) entitlements, the Federal Government provided to the Province at net loan payable of $9 million. Repayment of this loan payable is also scheduled to begin in April, 2006 and continue over a five year period.

18. RISK MANAGEMENT AND THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Province employs various risk management strategies and operates within fixed risk exposure limits to ensure exposure to risk is managed in a prudent and cost effective manner. A variety of strategies are used, including the use of derivative financial instruments (derivatives). Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to mitigate interest rate risk and the risks attached to foreign currency fluctuations. The Province does not use derivatives for speculative purposes. Gains or losses realized arising from derivative transactions are deferred and amortized over the remaining life of the derivative contract.

Hedges are created primarily through derivatives (swaps), which are legal contracts under which the Province agrees with another party to exchange cash flows based upon one or more notional amounts using stipulated reference interest rates for a specified period. Swaps can also be used to exchange cash flows involving different currencies. Swaps allow the Province to effectively manage the terms of its existing obligations and thereby convert them into obligations that meet the Province's risk parameters.

Other derivative instruments used by the Province include forward foreign exchange contracts and forward interest rate agreements. Foreign exchange or currency risk is the risk that foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, the Province uses derivative contracts including foreign

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EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

exchange forward contracts as well as swaps to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current portfolio of foreign debt is fully hedged through the use of derivatives and US dollar sinking funds, except for the impact of the unamortized foreign exchange fluctuation account of $79 million (2005 - $84 million).

Derivative contracts hedge the underlying debt by matching the critical terms to achieve effectiveness. The current policy has hedged the foreign currency debt principal and interest payments through the use of derivatives in relation to general purpose debt as well as through the use of future US dollar revenue streams and US dollar sinking funds in relation to debt incurred on behalf of Manitoba Hydro-Electric Board.

The table below presents a maturity schedule of the Province's derivatives, by type, outstanding at March 31, 2006, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Derivative Portfolio Notional Value
As at March 31, 2006

	Maturity in Fiscal Year ($millions)							
Derivatives	**2007**	**2008**	**2009**	**2010**	**2011**	**6 – 10 Years**	**Over 10 Years**	**Total**
Interest rate swaps	2,040	1,175	836	2,158	2,176	6,516	5,233	20,134
Cross currency swaps	552	462	984	609	234	972	2,915	6,728
Forward foreign exchange contracts	123					208		331
Total	2,715	1,637	1,820	2,767	2,410	7,696	8,148	27,193

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which the Province has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2006.

Credit Risk Exposure
As at March 31, 2006

	($ millions)	
	2006	**2005**
Gross credit risk exposure 1	59	172
Less: Netting 2	(762)	(967)
Net Credit Risk Exposure	(703)	(795)

1 *Gross credit risk exposure is the gross credit exposure to counterparties with net positive exposures (the respective counterparties owe the Province.)*

2 *"Netting" is the gross negative credit exposure to counterparties with net positive credit exposures covered by master agreements providing for close out netting when contracts do not have co-terminus settlement dates (the Province owes the respective counterparties).*

As at March 31, 2006, the Province has no net credit risk exposure, but has a net liability to counterparties.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

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The Province manages its credit risk exposure from derivatives by, among other activities, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. In addition, the Province enters into contractual agreements ("master agreements") with all of its counterparties that provide for termination netting and if applicable payment netting. Net credit risk exposure is the potential loss including the mitigating impact of these netting provisions.

A one percent (100 basis points) increase in interest rates would increase debt servicing costs by $13.5 million (2005, $11.8 million). Liquidity risk is the risk that the Province will not be able to meet its current short-term financial obligations. To reduce liquidity risk, the Province maintains liquid reserves, that is, cash and cash equivalents (Note 2), at levels that will meet future cash requirements and will give the Province flexibility in the timing of issuing debt. In addition, the Province has short-term note programs and sinking funds as alternative sources of liquidity.

19. RELATED PARTY TRANSACTIONS

A. Related Party Borrowings

Borrowings include $330 million (2005 - $306 million) owed to Manitoba Public Insurance Corporation related to the capital financing of school board and health care facilities as well as $250 million (2005 - $197 million) for the financing of general Government programs. A nil balance (2005 - $10 million) is owed to Manitoba Hydro-Electric Board for the capital financing of health care facilities and $45 million (2005 - $45 million) is payable to the Manitoba Liquor Control Commission. As well, $65 million (2005 - $32 million) is payable to Manitoba Opportunities Fund Ltd.

These loans and debentures are repayable over a term from 2007 to 2025 at varying interest rates ranging from 0% to 12.25%.

B. Water Power Rentals

Water power rental revenue from the Manitoba Hydro-Electric Board (Hydro), in the amount of $125 million (2005 - $105 million), is included in the Special Purpose Statement of Revenue and Expense under the Manitoba Collections category. These rentals are paid for the use of water resources in the operation of Hydro's hydroelectric generating stations. Water rental rates during the year were $3.34 per megawatt hour (MW.h) (2005 - $3.34 per MW.h).

C. Guarantee Fees

Manitoba Hydro-Electric Board (Hydro) remits guarantee fees to the Government based on the Hydro debt that the Province guarantees on their behalf. The guarantee fees paid by Hydro for the year ended March 31, 2006 were $69 million (2005 - $70 million).

D. Revenue From Workers Compensation Board

Under *The Workplace Safety and Health Act of Manitoba*, The Workers Compensation Board supports the administrative expenses incurred by the Department of Labour and Immigration for The Workplace Safety and Health program and the Worker Advisor Office. The amount for the year ended March 31, 2006 was $7 million (2005 - $7 million).

E. Driver Licencing Operations

Effective October 4, 2004, the Province of Manitoba transferred management and administration of driver licencing to the Manitoba Public Insurance Corporation (MPIC), including all aspects pertaining to driver safety, vehicle registration and driver licencing including all related financial, administrative and data processing services.

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EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

The Province of Manitoba has agreed to provide funding to MPIC in the amount of $21 million annually, in perpetuity, to defray the cost borne by MPIC as a result of the transfer.

MPIC, on behalf of the Province of Manitoba, collects and transfers motor vehicle registration fees to the Province. For the fiscal year ended March 31, 2006, these fees totalled $98 million (2005 - $85 million). Effective October 4, 2004, MPIC is also responsible for collecting and transferring driver licencing fees to the Province of Manitoba. For the fiscal year ended March 31, 2006 these fees totalled $19 million (the six month period ended March 31, 2005 - $9 million).

20. COMPARATIVE FIGURES

Certain of the 2005 financial statement figures have been reclassified to be consistent with the 2006 presentation.

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

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(cont'd.)

OPERATING FUND AND SPECIAL FUNDS - SPECIAL PURPOSE FINANCIAL STATEMENTS

AMOUNTS RECEIVABLE

SCHEDULE 1

As at March 31, 2006

	($ millions) 2006	($ millions) 2005
Taxation Revenue:		
Corporation Capital Tax	1	10
Corporation Income Tax	64	58
Gasoline Tax	13	13
Health and Education Levy	30	27
Individual Income Tax	126	121
Insurance Corporation Tax	14	14
Motive Fuel Tax	9	8
Oil and Natural Gas Tax	1	-
Retail Sales Tax	123	119
Revenue Act, 1964, Part 1	9	7
Tobacco Tax	17	19
	407	396
Government of Canada and Other Governments:		
Shared Cost Programs/Agreements	169	123
Canada Health and Social Transfers	4	3
Municipal corporations	-	2
	173	128
Interest Income:		
Province of Manitoba Sinking Fund	24	25
Other Investments	5	5
	29	30
Other:		
Health Care Facilities Sinking Funds	9	10
Immigration Program	1	-
Manitoba Agricultural Services Corporation	1	1
Manitoba Floodway Authority	19	-
Manitoba Health Insurance Plan	36	-
Manitoba Hydro-Electric Board	11	10
Manitoba Liquor Control Commission	23	19
Manitoba Lotteries Corporation	6	3
Morris-Macdonald School Division	-	1
Primary Health Care Transition Fund	3	4
Regional Health Authorities	11	20
Social Allowance	14	14
Special Operating Agencies	7	9
Sundry Departmental Revenue	61	59
Sundry	1	1
	203	151
	812	705
Less: Valuation Allowance	75	94
	737	611

Appendix D
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

OPERATING FUND AND SPECIAL FUNDS - SPECIAL PURPOSE FINANCIAL STATEMENTS

LOANS AND ADVANCES

SCHEDULE 2

As at March 31, 2006

($ millions)

	Crown Organizations and Government Business Enterprises	Other (Note Below)	2006 Total	2005 Total
Due 1 Year or Less	738	53	791	466
Due Over 1 Year	7,023	15	7,038	7,334
Total	7,761	68	7,829	7,800
Less: Sinking Funds	588	-	588	581
	7,173	68	7,241	7,219
Less: Valuation Allowance	335	13	348	351
	6,838	55	6,893	6,868
Less: Debt incurred for and repayable by the Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation	6,276	-	6,276	6,215
Net	562	55	617	653

The Crown organizations and Government business enterprises loans and advances portfolio is due in varying annual amounts to the year 2044, bearing interest rates from nil to 13.375%.

Note:

Environmental improvement loan, due in varying amounts to the year 2008, bearing no interest and guaranteed by an irrevocable letter of credit	16	17
Advances to Manitoba Potash Corporation, repayable on the Corporation generating revenue or the sale of the Province's interest, bearing interest at prime less 3/4%	4	4
Student loans, payment and interest free until 6 to 12 months past the completion of studies, due 114 to 174 months after that time, carrying interest at prime plus 2.5%	29	22
Community work program loans, repayable at the end of the 5 to 10 year term, bearing no interest	3	3
Advances to provide health care agencies with interim funding to meet daily operating expenses related to operations, repayable when no longer needed, bearing no interest	14	9
Miscellaneous	2	1
	68	56

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix D
(cont'd.)

OPERATING FUND AND SPECIAL FUNDS - SPECIAL PURPOSE FINANCIAL STATEMENTS

LONG-TERM INVESTMENTS

SCHEDULE 3

As at March 31, 2006

($ millions)

	Crown Organizations	Other	2006 Total	2005 Total
Shares:				
Common	9	5	14	14
Preferred	2	4	6	6
Special	-	2	2	2
Debentures	1	-	1	1
Profit Sharing Agreement	-	-	-	11
	12	11	23	34
Less: Valuation Allowance	12	11	23	34
Net	-	-	-	-

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Appendix D
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

OPERATING FUND AND SPECIAL FUNDS - SPECIAL PURPOSE FINANCIAL STATEMENTS

AMOUNTS HELD IN TRUST FOR INVESTMENT OR ADMINISTRATION AND TRUST ASSETS

SCHEDULE 4

As at March 31, 2006

	($ millions)	
	2006	**2005**
AMOUNTS HELD IN TRUST		
Government Business Enterprises	2,011	1,680
Crown Organizations	533	527
Fiduciary and Other Government Related Trusts	71	57
	2,615	2,264
TRUST ASSETS		
Cash and Cash Equivalents	798	639
Sinking Funds	-	8
Funds on Deposit for Investment and Administration	1,817	1,617
	2,615	2,264

Note: The Government also provides a safekeeping and custodial service for various departments, agencies, boards and commissions. In this capacity, it holds custodial trust funds in the amount of $104 million (2005 - $113 million) in the form of bonds and other securities, and title to tangible capital assets in trust in the amount of $68 million (2005 - $68 million). These amounts are not reflected in the above numbers.

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(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

SCHEDULE OF BORROWINGS

SCHEDULE 5

As at March 31, 2006
($ millions)

Fiscal Year of Maturity	Bonds and Debentures Cdn	Bonds and Debentures US	Canada Pension Plan Cdn	Loans Payable	Promissory Notes and Treasury Bills Cdn	Totals 2006	Totals 2005
2006	-	-	-	-	-	-	2,172
2007	1,188	584	150	-	325	2,247	1,943
2008	1,526	-	90	-	-	1,616	1,616
2009	1,940	288	106	-	-	2,334	2,296
2010	738	463	115	-	-	1,316	1,458
2011	916	292	103	-	-	1,311	828
2006-2011	6,308	1,627	564	-	325	8,824	10,313
				-			
2012-2016	3,389	396	177	-	-	3,962	3,071
2017-2026	3,432	817	15	-	-	4,264	3,898
2027-2045	2,343	-	-	-	-	2,343	2,041
2007-2026 Government Business Enterprises	-	-	-	375	-	375	361
2007-2026 Health Care Facilities	-	-	-	237	-	237	239
2006-2015 Government of Canada (Note 17)	-	-	-	118	-	118	127
2012-2045	9,164	1,213	192	730	-	11,299	9,737
Total Borrowings	15,472	2,840	756	730	325	20,123	20,050
Reduced by							
Unamortized Debt Issue Costs	(9)	(6)	-	-	-	(15)	(22)
Province of Manitoba debt issues held as investments in sinking funds and in cash and cash equivalents	(1,775)	-	-	-	-	(1,775)	(1,863)
	13,688	2,834	756	730	325	18,333	18,165

	March 31/06 Cdn $ Valuation (See Notes)	March 31/05 Cdn $ Valuation (See Notes)
Borrowings payable in:		
Canadian dollars	14,451	14,163
Foreign issues hedged to Canadian dollars	2,834	2,947
U.S. dollars	2,221	2,056
Foreign issues hedged to U.S. dollars	617	884
Total borrowings	20,123	20,050

Note 1: The hedges are derivative contracts which include swaps and forward foreign exchange contracts.

Note 2: The Canadian dollar valuation is calculated using the foreign currency exchange rates in effect at each March 31 adjusted for any forward foreign exchange contracts entered into for settlement after year-end.

Note 3: Interest rates on these borrowings fall into one of three categories:

i) Fixed with rates ranging from 3.25% to 11.33%.

ii) Floating Canadian - Bankers Acceptance (BA) setting, established quarterly or monthly, with the lowest rate currently set at 3.787% and the highest set at 7.33% as at March 31, 2006.

iii) Floating U.S. - U.S. Dollar London Interbank Offering Rate (LIBOR) setting, established quarterly, with the lowest rate currently set at 5.0455% and the highest set at 5.4255% as at March 31, 2006.

Appendix D
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

OPERATING FUND AND SPECIAL FUNDS - SPECIAL PURPOSE FINANCIAL STATEMENTS

ACCOUNTS PAYABLE, ACCRUED CHARGES, PROVISIONS AND DEFERRALS

SCHEDULE 6

As at March 31, 2006

	($ millions)	
	2006	**2005**
Accounts Payable	434	378
Accrued Charges		
Interest Accrued on Provincial Borrowings and Trust Funds	228	225
Other Accrued Liabilities		
Canadian Agricultural Income Stabilization Program	110	66
Communities Economic Development Fund	2	2
Compensation for Victims of Crime	19	17
Crown Organizations - Vacation Liability	139	139
Disaster Assistance	17	1
Environmental Liabilities (Note 1E 12)	146	5
Fairford First Nation	7	7
Flood Claims	15	15
Hepatitis C Assistance	6	6
Infrastructure Works Program	3	2
Land Acquisition Claims	2	2
Long Term Disability Income Plan (Note 11)	30	28
Manfor Ltd. Divestiture	1	2
Municipal Assistance Program	1	1
Net Income Stabilization Account Program (NISA)	-	1
Salaries and Benefits	72	97
Salaries and Benefits - Severance (Note 12)	229	225
Tripartite Land Assembly Program	3	3
VLT Grants Payable	2	4
Workers Compensation Claims	10	7
Other	4	5
Provision for Future Losses on Guarantees (Note 6)	10	17
Deferred Revenue		
Government of Canada - Advances re: Shared Cost Programs Not Yet Claimed	24	44
Vehicle Registration	43	42
Other	17	11
	1,574	1,352

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix D
(cont'd.)

SCHEDULE 7

TANGIBLE CAPITAL ASSETS
For the Year Ended March 31, 2006
($ millions)

	General Capital Assets					Infrastructure				Totals	
	Land	Buildings and Leasehold Improvements	Vehicles and Equipment	Computer Hardware and Software	Assets Under Construction	Land and Land Improvements	Transportation	Dams and Water Management Structures	Assets Under Construction	2006	2005
Cost											
Opening costs	14	348	149	241	31	207	1,841	81	27	2,939	770
Add											
Additions during the year	1	4	8	10	33	4	82	2	44	188	133
Infrastructure recognized (*)	-	-	-	-	-	-	-	-	-	-	2,068
Assets acquired in prior years/ devolved	-	3	-	-	-	-	-	-	-	3	-
Less											
Disposals and write downs	-	-	(1)	-	-	-	-	-	-	(1)	(30)
Settlements and reclassifications	-	8	1	11	(21)	4	2	2	(7)	-	-
Closing costs	15	363	157	262	43	215	1,925	85	64	3,129	2,939
Accumulated amortization											
Opening accumulated amortization	-	192	88	85	-	28	874	50	-	1,317	355
Add											
Amortization	-	9	7	16	-	2	67	2	-	103	98
Amortization charged to SOAs	-	-	-	2	-	-	-	-	-	2	2
Accumulated amortization - infrastructure recognized (*)	-	-	-	-	-	-	-	-	-	-	883
Assets acquired in prior years/ devolved	-	3	-	-	-	-	-	-	-	3	-
Less											
Disposals and write downs	-	-	(1)	-	-	-	-	-	-	(1)	(21)
Closing accumulated amortization	-	204	94	103	-	30	941	52	-	1,424	1,317
Net Book Value of Tangible Capital Asset	15	159	63	159	43	185	984	33	64	1,705	1,622

* Effective April 1, 2004, the Government included the capitalization of infrastructure as part of the tangible capital assets.

During the year the Province capitalized $0.8 million of interest relating to assets under construction. (2005 - $0.5 million)

Appendix D
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

SCHEDULE 8

OPERATING FUND REVENUE AND EXPENSE

For the Year Ended March 31, 2006

($ millions)

	2006 **Budget Estimate** (Note 13)	**2006** **Actual**	**2005** **Actual**
OPERATING FUND REVENUE			
Manitoba Collections:			
Retail Sales Tax	1,181	1,198	1,125
Fuel Taxes	234	236	235
Levy for Health and Education	294	303	287
Mining Tax	57	39	41
Other Taxes	529	509	531
Fees and Other Revenue	368	413	361
Income Taxes:			
Corporation Income Tax	366	373	402
Individual Income Tax	1,877	1,949	1,845
Federal Transfers:			
Equalization	1,601	1,601	1,699
Bill C-48	-	49	-
Canada Health Transfer	726	733	685
Canada Social Transfer	320	325	307
Child Care	5	25	-
Health Reform Fund	-	-	55
Other Health Funds	27	25	54
Shared Cost and Other Transfers	117	156	120
Crown Organizations	475	491	476
TOTAL OPERATING FUND REVENUE	8,177	8,425	8,223
OPERATING FUND EXPENSES			
Health	3,390	3,443	3,237
Education	1,746	1,736	1,692
Family Services and Housing	986	983	927
Community, Economic and Resource Development	1,090	1,220	1,023
Justice and Other Government	648	642	598
Net Debt Servicing (Note 16)	269	260	241
	8,129	8,284	7,718
Less: Budgeted Underexpenditure	65	-	-
TOTAL OPERATING FUND EXPENSES (Schedule 10)	8,064	8,284	7,718

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

Appendix D
(cont'd.)

CHANGES IN OTHER SPECIAL FUNDS

SCHEDULE 9

For the Year Ended March 31, 2006

($ millions)

	Mining Community Reserve	Quarry Rehabilitation Reserve Fund	Other Funds	Total 2006	Total 2005
Surplus, Beginning of Year	14	5	3	22	22
Revenue	1	2	3	6	7
Expenses	-	1	3	4	6
Net Revenue over Expenses	1	1	-	2	1
Transfers	2	-	-	2	1
Net Result for the Year	(1)	1	-	-	-
Surplus, End of Year	13	6	3	22	22

Appendix D
(cont'd.)

EXCERPTS FROM "PROVINCE OF MANITOBA, ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 2006"

OPERATING FUND EXPENSE BY TYPE

SCHEDULE 10

For the Year Ended March 31, 2006

	($ millions)	
	2006	2005
Personnel Services	847	819
Grants/Transfer Payments	5,634	5,211
Transportation	47	43
Communications	28	29
Supplies and Services	317	288
Social Assistance Related	700	669
Other Operating	236	218
Net Debt Servicing - General (Note 16)	260	241
- Departments (Note 16)	91	85
Minor Capital	21	17
Amortization	103	98
	8,284	7,718

Appendix E

SUMMARY OF WHO CONDUCTS THE AUDITS

(OAG - Office of the Auditor General; PSA - Private Sector Auditors)

	Audit Conducted By	
	OAG	PSA
Government Business Enterprises		
Leaf Rapids Town Properties Ltd.	X	
Manitoba Hazardous Waste Management Corporation		X
Manitoba Hydro-Electric Board		X
Manitoba Liquor Control Commission		X
Manitoba Lotteries Corporation		X
Manitoba Product Stewardship Corporation		X
Manitoba Public Insurance Corporation		X
Workers Compensation Board		X
Crown Organizations		
Addictions Foundation of Manitoba		X
Assiniboine Community College		X
Board of Administration under the Embalmers and Funeral Directors Act	X	
Brandon University	X	
CancerCare Manitoba		X
Centre Culturel Franco-Manitobain	X	
Child and Family Services of Central Manitoba		X
Child and Family Services of Western Manitoba		X
Collège universitaire de Saint-Boniface		X
Communities Economic Development Fund		X
Cooperative Loans and Loans Guarantee Board	X	
Cooperative Promotion Board	X	
Council on Post-Secondary Education	X	
Crown Corporations Council		X
Diagnostic Services of Manitoba Inc.		X
Economic Innovation and Technology Council	X	
First Nations of Northern Manitoba Child and Family Services Authority		X
First Nations of Southern Manitoba Child and Family Services Authority		X
General Child and Family Services Authority		X
Helen Betty Osborne Foundation	X	
Horse Racing Commission	X	
Insurance Council of Manitoba		X
Legal Aid Manitoba	X	
Manitoba Adolescent Treatment Centre Inc.		X
Manitoba Agricultural Credit Corporation	X	
Manitoba Arts Council		X
Manitoba Boxing Commission		X
Manitoba Centennial Centre Corporation	X	
Manitoba Community Services Council Inc.		X
Manitoba Crop Insurance Corporation	X	

Appendix E
(cont'd.)

SUMMARY OF WHO CONDUCTS THE AUDITS
(OAG - Office of the Auditor General; PSA - Private Sector Auditors)

	Audit Conducted By	
	OAG	PSA
Manitoba Development Corporation		X
Manitoba Film and Sound Development Corporation		X
Manitoba Floodway Authority		X
Manitoba Gaming Control Commission	X	
Manitoba Habitat Heritage Corporation	X	
Manitoba Health Research Council		X
Manitoba Health Services Insurance Plan	X	
Manitoba Hospital Capital Financing Authority	X	
Manitoba Housing and Renewal Corporation	X	
Manitoba Opportunities Fund Ltd.		X
Manitoba Trade and Investment Corporation	X	
Manitoba Water Services Board	X	
Metis Child and Family Services Authority		X
Public Schools Finance Board	X	
Red River College		X
Rehabilitation Centre for Children, Inc.		X
Special Operating Agencies Financing Authority	X	
Sport Manitoba Inc.		X
Tire Stewardship Board		X
Travel Manitoba		X
University College of the North	X	
University of Manitoba	X	
University of Winnipeg	X	
Venture Manitoba Tours Ltd.		X
Special Operating Agencies		
Civil Legal Services		X
Companies Office		X
Fire Commissioner, Office of the		X
Fleet Vehicles Agency		X
Food Development Centre		X
Industrial Technology Centre		X
Land Management Services		X
Manitoba Education, Research and Learning Information Networks (MERLIN)		X
Manitoba Securities Commission		X
Manitoba Text Book Bureau	X	
Materials Distribution Agency		X
Organization and Staff Development	X	
Pineland Forest Nursery		X
The Property Registry		X
The Public Trustee	X	
Vital Statistics Agency		X

SUMMARY OF WHO CONDUCTS THE AUDITS

(OAG - Office of the Auditor General; PSA - Private Sector Auditors)

Appendix E

(cont'd.)

	Audit Conducted By	
	OAG	PSA
Regional Health Authorities		
Assiniboine Regional Health Authority Inc.		X
Brandon Regional Health Authority Inc.		X
Burntwood Regional Health Authority Inc.		X
Churchill Regional Health Authority Inc.		X
Interlake Regional Health Authority		X
NOR-MAN Regional Health Authority Inc.		X
North Eastman Health Authority Inc.		X
Parkland Regional Health Authority Inc.		X
Regional Health Authority - Central Manitoba Inc.		X
South Eastman Regional/Sante Sud-Est Inc.		X
Winnipeg Regional Health Authority Inc.		X

Appendix F

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

CHAPTER B5

THE BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

(Assented to November 3, 1995)

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Manitoba, enacts as follows:

Definitions

1 In this Act,

"allocation committee" means the Debt Retirement Fund Allocation Committee appointed under subsection 8(6.2); (« Comité de répartition »)

"balance" for a fiscal year means the net result as shown on the financial statements after expenditure, as adjusted by section 3, is subtracted from revenue, as adjusted by section 3, and after the application of transfers from the operating fund to the Debt Retirement Fund and from the Fiscal Stabilization Fund to the operating fund; (« solde »)

"Crown corporation" means Manitoba Hydro, The Manitoba Public Insurance Corporation, The Liquor Control Commission and The Manitoba Lotteries Corporation; (« société de la Couronne »)

CHAPITRE B5

LOI SUR L'ÉQUILIBRE BUDGÉTAIRE, LE REMBOURSEMENT DE LA DETTE ET L'OBLIGATION DE RENDRE COMPTE AUX CONTRIBUABLES

(Date de sanction : 3 novembre 1995)

SA MAJESTÉ, sur l'avis et avec le consentement de l'Assemblée législative du Manitoba, édicte :

Définitions

1 Les définitions qui suivent s'appliquent à la présente loi.

« Comité de répartition » Comité de répartition du Fonds de remboursement de la dette nommé en vertu du paragraphe 8(6.2). ("allocation committee")

« dépenses » Dépenses engagées au cours d'un exercice et déclarées dans les états financiers vérifiés du fonds de fonctionnement pour l'exercice. La présente définition ne vise toutefois pas les transferts effectués du fonds de fonctionnement au Fonds de stabilisation des recettes ou au Fonds de remboursement de la dette. ("expenditure")

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

Appendix F
(cont'd.)

"Debt Retirement Fund" means the fund established in section 8; (« Fonds de remboursement de la dette »)

"expenditure" in respect of a fiscal year means expenditure as reported in the audited financial statements of the operating fund for that fiscal year, but does not include transfers from the operating fund to the Fiscal Stabilization Fund or the Debt Retirement Fund; (« dépenses »)

"financial statements" means the special purpose statements regarding the operating fund, prepared for the purpose of this Act to show whether the government is in compliance with this Act; (« états financiers »)

"Fiscal Stabilization Fund" means the Fiscal Stabilization Fund established in *The Fiscal Stabilization Fund Act*; (« Fonds de stabilisation des recettes »)

"general purpose debt" means general purpose debt as described in subsection 78(2) of *The Financial Administration Act*, but does not include

(a) debt associated with the acquisition of capital assets by the government for which an amortization allowance has been included in expenditure of the operating fund, or

(b) other debt incurred by the government for which a repayment provision has been included in expenditure of the operating fund; (« dette à portée générale »)

"minister" means the Minister of Finance; (« ministre »)

"net general purpose debt" means general purpose debt less the book value of related sinking funds; (« dette nette à portée générale »)

"net pension liability" means pension liability less the book value of related funds established for the payment of pensions; (« passif net découlant du régime de retraite »)

« dette à portée générale » La dette à portée générale que vise le paragraphe 78(2) de la *Loi sur la gestion des finances publiques*. La présente définition ne vise toutefois pas :

a) les dettes découlant de l'acquisition d'immobilisations, par le gouvernement, pour lesquelles une allocation d'amortissement a été portée aux dépenses du fonds de fonctionnement;

b) les autres dettes que le gouvernement a engagées et dont le remboursement a été prévu dans les dépenses du fonds de fonctionnement. ("general purpose debt")

« états financiers » Les états spéciaux du fonds de fonctionnement dressés pour l'application de la présente loi afin de démontrer si le gouvernement s'est conformé ou non à la présente loi. ("financial statements")

« fonds de fonctionnement » La partie du Trésor dans laquelle sont effectuées les transactions de fonctionnement du gouvernement, mais non celles visant les fonds détenus en fiducie. ("operating fund")

« Fonds de remboursement de la dette » Fonds constitué en vertu de l'article 8. ("Debt Retirement Fund")

« Fonds de stabilisation des recettes » Fonds de stabilisation des recettes constitué en vertu de la *Loi sur le Fonds de stabilisation des recettes*. ("Fiscal Stabilization Fund")

« ministre » Le ministre des Finances. ("minister")

« passif découlant du régime de retraite » Sommes nécessaires pour provisionner totalement les pensions que prévoient la *Loi sur la pension de la fonction publique* et la *Loi sur la pension de retraite des enseignants* qui sont payables sur le fonds de fonctionnement, mais qui ne sont pas déjà provisionnées. ("pension liability")

Appendix F
(cont'd.)

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

"**operating fund**" means that part of the Consolidated Fund that records the operational activities of the government and does not record activities relating to moneys that are held in trust; (« fonds de fonctionnement »)

"**pension liability**" means the amount required to fully fund the pensions provided for under *The Civil Service Superannuation Act* and *The Teachers' Pensions Act* that are payable out of the operating fund and not funded in another manner; (« passif découlant du régime de retraite »)

"**revenue**" in respect of a fiscal year means revenue as reported in the audited financial statements of the operating fund for that fiscal year, but does not include transfers to the operating fund from the Debt Retirement Fund or the Fiscal Stabilization Fund; (« recettes »)

S.M. 2000, c. 42, s. 3

« **passif net découlant du régime de retraite** » Passif découlant du régime de retraite moins la valeur comptable des fonds connexes établis pour le paiement des pensions. ("net pension liability")

« **recettes** » Recettes obtenues au cours d'un exercice et déclarées dans les états financiers vérifiés du fonds de fonctionnement pour l'exercice. La présente définition ne vise toutefois pas les transferts effectués du Fonds de stabilisation des recettes ou du Fonds de remboursement de la dette au fonds de fonctionnement. ("revenue")

« **société de la Couronne** » L'Hydro-Manitoba, la Société d'assurance publique du Manitoba, la Société des alcools et la Corporation manitobaine des loteries. ("Crown corporation")

« **solde** » Résultat net d'un exercice figurant aux états financiers et obtenu en soustrayant les dépenses, rajustées en vertu de l'article 3, des recettes, rajustées en vertu de l'article 3, et après avoir affecté les transferts du fonds de fonctionnement au fonds de remboursement de la dette et du Fonds de stabilisation des recettes au fonds de fonctionnement. ("balance")

L.M. 2000, c. 42, art. 3

BALANCED BUDGET REQUIREMENT

Fiscal year 2000-01 and thereafter

2 Subject to subsection 4(2), for the fiscal year ending on March 31, 2001 and for each fiscal year thereafter, the government is not to incur a negative balance.

S.M. 2000, c. 42, s. 4

Transfers from Debt Retirement Fund not included in determining balance

3(1) For greater certainty, transfers from the Debt Retirement Fund to the operating fund shall not be included in determining whether there is a positive or negative balance for a fiscal year.

ÉQUILIBRE BUDGÉTAIRE

Exercices 2000-2001 et subséquents

2 Sous réserve du paragraphe 4(2), le gouvernement s'interdit de terminer l'exercice se terminant le 31 mars 2001 et les exercices subséquents avec un solde négatif.

L.M. 2000, c. 42, art. 4

Détermination du solde — transferts

3(1) Il est entendu que, pour la détermination du solde, positif ou négatif, d'un exercice, il n'est pas tenu compte des transferts du Fonds de remboursement de la dette au fonds de fonctionnement.

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

Appendix F
(cont'd.)

BALANCED BUDGET

S.M. 1995, c.7 - Cap. B5

Proceeds from sale of Crown corporation not included in determining balance
3(1.1) Revenue or other financial assets received by the government in a fiscal year ending after March 31, 2000 as a result of selling shares or assets of a Crown corporation in the course of a privatization of the Crown corporation shall not be included in determining whether there is a positive or negative balance for the fiscal year.

Other amounts not required to be included in determining balance
3(2) The government is not required to include the following in determining whether there is a positive or negative balance for a fiscal year:

(a) an expenditure required in the fiscal year as a result of a natural or other disaster in Manitoba that could not have been anticipated and affects the province or a region of the province in a manner that is of urgent public concern;

(b) an expenditure required in the fiscal year because Canada is at war or under apprehension of war;

(c) a reduction in revenue of 5% or more in the fiscal year, other than a reduction resulting from a change in Manitoba's taxation laws.

Declaration of L. G. in C.
3(3) A declaration by the Lieutenant Governor in Council that, in the opinion of the Lieutenant Governor in Council, an expenditure or reduction of revenue as described in subsection (2) has occurred is conclusive for the purposes of this Act of the fact that the expenditure or reduction occurred and in that amount.

Content of declaration
3(4) A declaration under subsection (3) shall include a description of the expenditure and why it was necessary and of the reduction in revenue and why it occurred.

Accounting policies
3(5) Subject to subsection (6), expenditure and revenue of a fiscal year shall be determined in accordance with the accounting policies that are observed for the fiscal year as disclosed in the audited financial statements of the operating fund for that fiscal year.

Détermination du solde — vente de sociétés de la Couronne
3(1.1) Pour la détermination du solde, positif ou négatif, des exercices postérieurs au 31 mars 2001, il n'est pas tenu compte des recettes ni des autres actifs financiers que le gouvernement obtient en contrepartie de la vente d'actions ou d'actifs de sociétés de la Couronne faisant l'objet d'une privatisation.

Détermination du solde — autres sommes
3(2) Le gouvernement n'est pas obligé de tenir compte des circonstances mentionnées plus bas pour déterminer le solde, positif ou négatif, d'un exercice :

a) la survenance, au Manitoba, d'un sinistre imprévu, notamment un sinistre naturel, qui a touché la totalité ou une partie de la province d'une manière telle qu'il constitue une question urgente d'intérêt public;

b) le Canada était en guerre ou se préparait à la guerre;

c) la réduction d'au moins 5 % des recettes au cours de l'exercice qui n'est pas attribuable à des modifications apportées aux lois fiscales de la province.

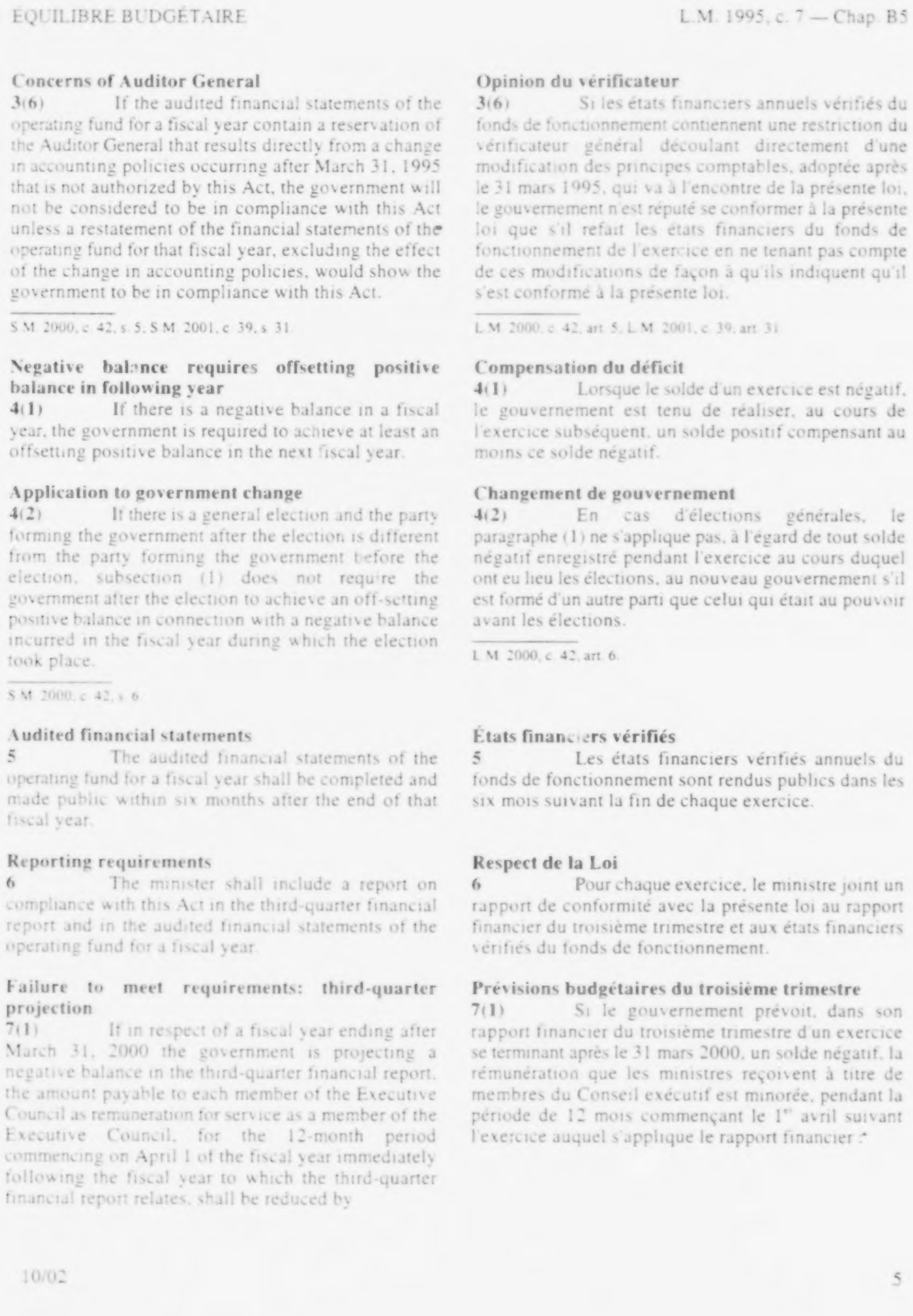
Déclaration du lieutenant-gouverneur
3(3) Le fait que le lieutenant-gouverneur en conseil déclare estimer qu'il y a eu engagement de dépenses ou réduction de recettes, ainsi qu'il est indiqué au paragraphe (2), constitue, aux fins de la présente loi, une preuve des dépenses ou de la réduction et de leur montant.

Contenu de la déclaration
3(4) Sont énoncées dans la déclaration visée au paragraphe (3) les dépenses engagées et les raisons de leur engagement ainsi que la réduction des recettes et les raisons de cette réduction.

Principes comptables
3(5) Sous réserve du paragraphe (6), les dépenses et les recettes d'un exercice sont déterminées en conformité avec les principes comptables précisés aux états financiers vérifiés annuels du fonds de fonctionnement.

Appendix F
(cont'd.)

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT



Concerns of Auditor General
3(6) If the audited financial statements of the operating fund for a fiscal year contain a reservation of the Auditor General that results directly from a change in accounting policies occurring after March 31, 1995 that is not authorized by this Act, the government will not be considered to be in compliance with this Act unless a restatement of the financial statements of the operating fund for that fiscal year, excluding the effect of the change in accounting policies, would show the government to be in compliance with this Act.

S.M. 2000, c. 42, s. 5; S.M. 2001, c. 39, s. 31.

Negative balance requires offsetting positive balance in following year
4(1) If there is a negative balance in a fiscal year, the government is required to achieve at least an offsetting positive balance in the next fiscal year.

Application to government change
4(2) If there is a general election and the party forming the government after the election is different from the party forming the government before the election, subsection (1) does not require the government after the election to achieve an off-setting positive balance in connection with a negative balance incurred in the fiscal year during which the election took place.

S.M. 2000, c. 42, s. 6.

Audited financial statements
5 The audited financial statements of the operating fund for a fiscal year shall be completed and made public within six months after the end of that fiscal year.

Reporting requirements
6 The minister shall include a report on compliance with this Act in the third-quarter financial report and in the audited financial statements of the operating fund for a fiscal year.

Failure to meet requirements: third-quarter projection
7(1) If in respect of a fiscal year ending after March 31, 2000 the government is projecting a negative balance in the third-quarter financial report, the amount payable to each member of the Executive Council as remuneration for service as a member of the Executive Council, for the 12-month period commencing on April 1 of the fiscal year immediately following the fiscal year to which the third-quarter financial report relates, shall be reduced by

Opinion du vérificateur
3(6) Si les états financiers annuels vérifiés du fonds de fonctionnement contiennent une restriction du vérificateur général découlant directement d'une modification des principes comptables, adoptée après le 31 mars 1995, qui va à l'encontre de la présente loi, le gouvernement n'est réputé se conformer à la présente loi que s'il refait les états financiers du fonds de fonctionnement de l'exercice en ne tenant pas compte de ces modifications de façon à qu'ils indiquent qu'il s'est conformé à la présente loi.

L.M. 2000, c. 42, art. 5; L.M. 2001, c. 39, art. 31.

Compensation du déficit
4(1) Lorsque le solde d'un exercice est négatif, le gouvernement est tenu de réaliser, au cours de l'exercice subséquent, un solde positif compensant au moins ce solde négatif.

Changement de gouvernement
4(2) En cas d'élections générales, le paragraphe (1) ne s'applique pas, à l'égard de tout solde négatif enregistré pendant l'exercice au cours duquel ont eu lieu les élections, au nouveau gouvernement s'il est formé d'un autre parti que celui qui était au pouvoir avant les élections.

L.M. 2000, c. 42, art. 6.

États financiers vérifiés
5 Les états financiers vérifiés annuels du fonds de fonctionnement sont rendus publics dans les six mois suivant la fin de chaque exercice.

Respect de la Loi
6 Pour chaque exercice, le ministre joint un rapport de conformité avec la présente loi au rapport financier du troisième trimestre et aux états financiers vérifiés du fonds de fonctionnement.

Prévisions budgétaires du troisième trimestre
7(1) Si le gouvernement prévoit, dans son rapport financier du troisième trimestre d'un exercice se terminant après le 31 mars 2000, un solde négatif, la rémunération que les ministres reçoivent à titre de membres du Conseil exécutif est minorée, pendant la période de 12 mois commençant le 1er avril suivant l'exercice auquel s'applique le rapport financier :

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

(a) 20%, in a case where the government did not incur a negative balance in the fiscal year immediately preceding the fiscal year to which the report relates;

(b) 40%, in a case where the government incurred a negative balance in the fiscal year immediately preceding the fiscal year to which the report relates.

Refund
7(2) If the audited financial statements of the operating fund for a fiscal year show that the government is in compliance with this Act and amounts have been deducted from amounts payable to members of the Executive Council in connection with that fiscal year under subsection (1), the amounts so deducted shall be refunded to the members of the Executive Council.

Failure to meet requirements: year-end
7(3) If in respect of a fiscal year ending after March 31, 2000 the audited financial statements of the operating fund show that the government incurred a negative balance, and no amount is being deducted from amounts payable to members of the Executive Council under subsection (1) in connection with that fiscal year, the amount payable to each member of the Executive Council as remuneration for service as a member of the Executive Council, for the 12-month period commencing on April 1 of the fiscal year immediately following the fiscal year to which the statements relate, shall be reduced by

(a) 20%, in a case where the government did not incur a negative balance in the fiscal year immediately preceding the fiscal year to which the statements relate;

(b) 40%, in a case where the government incurred a negative balance in the fiscal year immediately preceding the fiscal year to which the statements relate.

Reduction process
7(4) The reduction required by subsection (3) may be prorated over the months that remain in the fiscal year after the publication of the audited financial statements of the operating fund.

Ceasing to be a member of the Executive Council
7(5) A reduction in the amount payable to a member of the Executive Council under this section applies only during the period when he or she serves as a member of the Executive Council.

a) de 20 %, si le gouvernement n'a pas obtenu un solde négatif au cours de l'exercice précédant celui auquel s'applique le rapport;

b) de 40 %, si le gouvernement a obtenu un solde négatif au cours de l'exercice précédant celui auquel s'applique le rapport.

Remboursement
7(2) Toute somme déduite de la rémunération des ministres en vertu du paragraphe (1) à l'égard d'un exercice leur est remboursée si les états financiers vérifiés annuels du fonds de fonctionnement indiquent que le gouvernement s'est conformé à la présente loi.

Défaut
7(3) Si les états financiers vérifiés du fonds de fonctionnement pour tout exercice se terminant après le 31 mars 2000 indiquent que le gouvernement a obtenu un solde négatif et qu'aucune minoration n'ait été effectuée en application du paragraphe (1) pour cet exercice, la rémunération que les ministres reçoivent à titre de membres du Conseil exécutif est minorée, pendant la période de 12 mois commençant le 1er avril suivant l'exercice auquel s'appliquent les états financiers :

a) de 20 %, si le gouvernement n'a pas obtenu un solde négatif au cours de l'exercice précédant celui auquel s'applique le rapport;

b) de 40 %, si le gouvernement a obtenu un solde négatif au cours de l'exercice précédant celui auquel s'applique le rapport.

Processus de minoration
7(4) La minoration visée au paragraphe (3) peut être répartie sur la partie de l'exercice qui suit la publication des états financiers vérifiés du fonds de fonctionnement.

Titulaires de portefeuille ministériel
7(5) La minoration de rémunération visée au présent article ne s'applique qu'à la période pendant laquelle la personne est membre du Conseil exécutif.

Appendix F
(cont'd.)

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

New members of the Executive Council
7(6) A reduction in the amount payable to members of the Executive Council under this section applies on a prorated basis to any new member of the Executive Council appointed during the period of the reduction.

S.M. 2000, c. 42, s. 7.

DEBT RETIREMENT FUND

Debt Retirement Fund
8(1) In this section, **"fund"** means the Debt Retirement Fund established in subsection (2).

Fund established
8(2) The Debt Retirement Fund is hereby established under the direction and control of the minister.

Management of fund
8(3) The minister shall hold the fund in trust and shall manage the fund in accordance with the provisions of *The Financial Administration Act* and this Act.

Transfers to the fund from the operating fund mandatory
8(4) Despite *The Financial Administration Act*, the minister

(a) may, with the approval of the Lieutenant Governor in Council, transfer to the fund from the operating fund in any fiscal year any amounts that the Lieutenant Governor in Council considers appropriate; and

(b) shall, in each fiscal year ending after March 31, 2000, until the fund is wound up under subsection (12), transfer to the fund from the operating fund an amount equal to the greater of the following amounts:

(i) $96,357,000., as adjusted from time to time under subsection (4.1),

(ii) 1% of the total of the net general purpose debt and the net pension liability as at the end of the immediately preceding fiscal year.

Nouveaux ministres
7(6) La minoration visée au présent article s'applique aux ministres nommés au cours de la période de minoration de façon proportionnelle à la partie de la période au cours de laquelle ils sont ministre.

L.M. 2000, c. 42, art. 7.

FONDS DE REMBOURSEMENT DE LA DETTE

Définition
8(1) Pour l'application du présent article, « **Fonds** » s'entend du Fonds de remboursement de la dette constitué en application du paragraphe (2).

Constitution
8(2) Est constitué le Fonds de remboursement de la dette. Le ministre en est responsable.

Administration du Fonds
8(3) Le ministre détient le Fonds en fiducie et l'administre en conformité avec la présente loi et la *Loi sur l'administration financière*.

Transferts du fonds de fonctionnement
8(4) Malgré la *Loi sur la gestion des finances publiques*, le ministre :

a) peut, avec l'approbation du lieutenant-gouverneur en conseil, transférer du fonds de fonctionnement au Fonds les sommes que le lieutenant-gouverneur en conseil estime appropriées;

b) pour tout exercice se terminant après le 31 mars 2000 et jusqu'à ce que le Fonds soit liquidé en vertu du paragraphe (12), est tenu de transférer du fonds de fonctionnement au Fonds une somme équivalant au plus élevé des montants qui suivent :

(i) 96 357 000 $, rajusté conformément au paragraphe (4.1),

(ii) 1 % du total de la dette nette à portée générale et du passif net découlant du régime de retraite à la clôture de l'exercice précédent.

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

Appendix F
(cont'd.)

Adjustment of transfer amount
8(4.1) The amount set out in subclause (4)(b)(i) shall be increased in each fiscal year commencing after March 31, 2001

(a) by 7% of all amounts transferred from the fund to the operating fund after March 31, 2000 for the repayment of general purpose debt; and

(b) if the amount remaining, after the allocation to general purpose debt, is insufficient to match the projected pension contributions of new employees hired on or after April 1, 2000, by any amount the minister considers necessary to ensure that those projected pension contributions can be matched.

Earnings of fund
8(5) The minister shall credit to the fund any earnings from investments of the fund.

Transfers from the fund to the operating fund
8(6) The minister, with the approval of the Lieutenant Governor in Council,

(a) may, from time to time during a fiscal year, transfer to the operating fund all or any part of the amounts standing to the credit of the fund, to be used for the sole purpose of reducing the general purpose debt and the pension liability of the government; and

(b) shall, at least once every five years after March 31, 2000, transfer to the operating fund all of the amounts standing to the credit of the fund, to be used for the sole purpose of reducing the general purpose debt and the pension liability of the government.

Allocation between general purpose debt and pension liability
8(6.1) The amount transferred to the fund under clause (4)(b) shall be allocated between general purpose debt and pension liability as follows:

(a) for the fiscal year ending March 31, 2001, $75,000,000. to general purpose debt and the remainder to pension liability; and

(b) for each fiscal year ending after March 31, 2001, as determined by the allocation committee.

Rajustement annuel
8(4.1) La somme indiquée au sous-alinéa (4)b)(i) est majorée, au cours de chaque exercice commençant après le 31 mars 2001 :

a) de 7 % des sommes transférées du Fonds au fonds de fonctionnement après le 31 mars 2000 pour le remboursement de la dette à portée générale;

b) de la somme que le ministre estime nécessaire pour provisionner les cotisations de contrepartie prévues pour les employés engagés à partir du 1er avril 2000 si le solde, après l'allocation pour la dette à portée générale, n'est pas suffisant pour les provisionner.

Revenus du Fonds
8(5) Le ministre porte au crédit du Fonds les revenus provenant des placements de celui-ci.

Transferts
8(6) Avec l'approbation du lieutenant-gouverneur en conseil, le ministre :

a) peut transférer au fonds de fonctionnement, au cours d'un exercice, la totalité ou une partie des sommes à l'actif du Fonds afin de réduire la dette à portée générale du gouvernement et son passif découlant du régime de retraite;

b) après le 31 mars 2000, est tenu de transférer au fonds de fonctionnement, au moins une fois par cinq ans, les sommes à l'actif du Fonds afin de réduire la dette à portée générale du gouvernement et son passif découlant du régime de retraite.

Répartition entre la dette et le passif
8(6.1) La somme transférée au Fonds en vertu de l'alinéa (4)b) est répartie entre la dette à portée générale et le passif découlant du régime de retraite comme suit :

a) pour l'exercice se terminant le 31 mars 2001, 75 000 000 $ pour la dette à portée générale et le reste pour le passif découlant du régime de retraite;

b) pour les exercices se terminant après le 31 mars 2001, conformément à ce que détermine le Comité de répartition.

Appendix F
(cont'd.)

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

Debt Retirement Fund Allocation Committee
8(6.2) The Debt Retirement Fund Allocation Committee is established consisting of

(a) the Deputy Minister of Finance, who shall be the chairperson of the allocation committee; and

(b) at least four other individuals appointed by the Lieutenant Governor in Council who, in the opinion of the Lieutenant Governor in Council, demonstrate financial expertise and competence, each of whom may be appointed for any term the Lieutenant Governor in Council considers appropriate.

Duties of allocation committee
8(6.3) The allocation committee shall determine the allocation between general purpose debt and pension liability of

(a) the amounts transferred to the fund under subsection (4) and clause 9(b); and

(b) any earnings from investments of the fund.

Effective reduction of aggregate amount
8(6.4) In determining the allocation of the amounts transferred to the fund between general purpose debt and pension liability, the allocation committee shall follow investment and debt reduction principles that, subject to subsection (6.5), in the opinion of the committee, will result in the most effective reduction of the aggregate amount owing.

Requirement regarding matching contributions for new employees
8(6.5) The allocation committee shall ensure that provision exists for matching the projected pension contributions of new employees hired on or after April 1, 2000.

No lapse
8(7) Notwithstanding any other Act or law, amounts standing to the credit of the fund do not lapse at the end of a fiscal year.

Fiscal year
8(8) The fiscal year of the fund is the period commencing on April 1 in one year and ending on March 31 in the next year.

Comité de répartition du Fonds de remboursement
8(6.2) Est créé le Comité de répartition du Fonds de remboursement de la dette constitué :

a) du sous-ministre des Finances, qui en est le président;

b) d'au moins quatre autres personnes que le lieutenant-gouverneur en conseil nomme pour la durée qu'il juge indiquée et qui, selon lui, ont les connaissances et les compétences financières nécessaires.

Attributions du Comité de répartition
8(6.3) Le Comité de répartition détermine la répartition des sommes mentionnées plus bas à la dette de portée générale et au passif découlant du régime de retraite :

a) les sommes transférées au Fonds en vertu du paragraphe (4) et de l'alinéa 9b);

b) les gains provenant des investissements du Fonds.

Réduction réelle du montant global
8(6.4) Pour déterminer la répartition des sommes transférées au Fonds au titre de la dette à portée générale et du passif découlant du régime de retraite, le Comité de répartition respecte les principes de placement et de réduction de la dette qui, selon lui et sous réserve du paragraphe (6.5), sont les plus efficaces pour réduire le montant global de la dette.

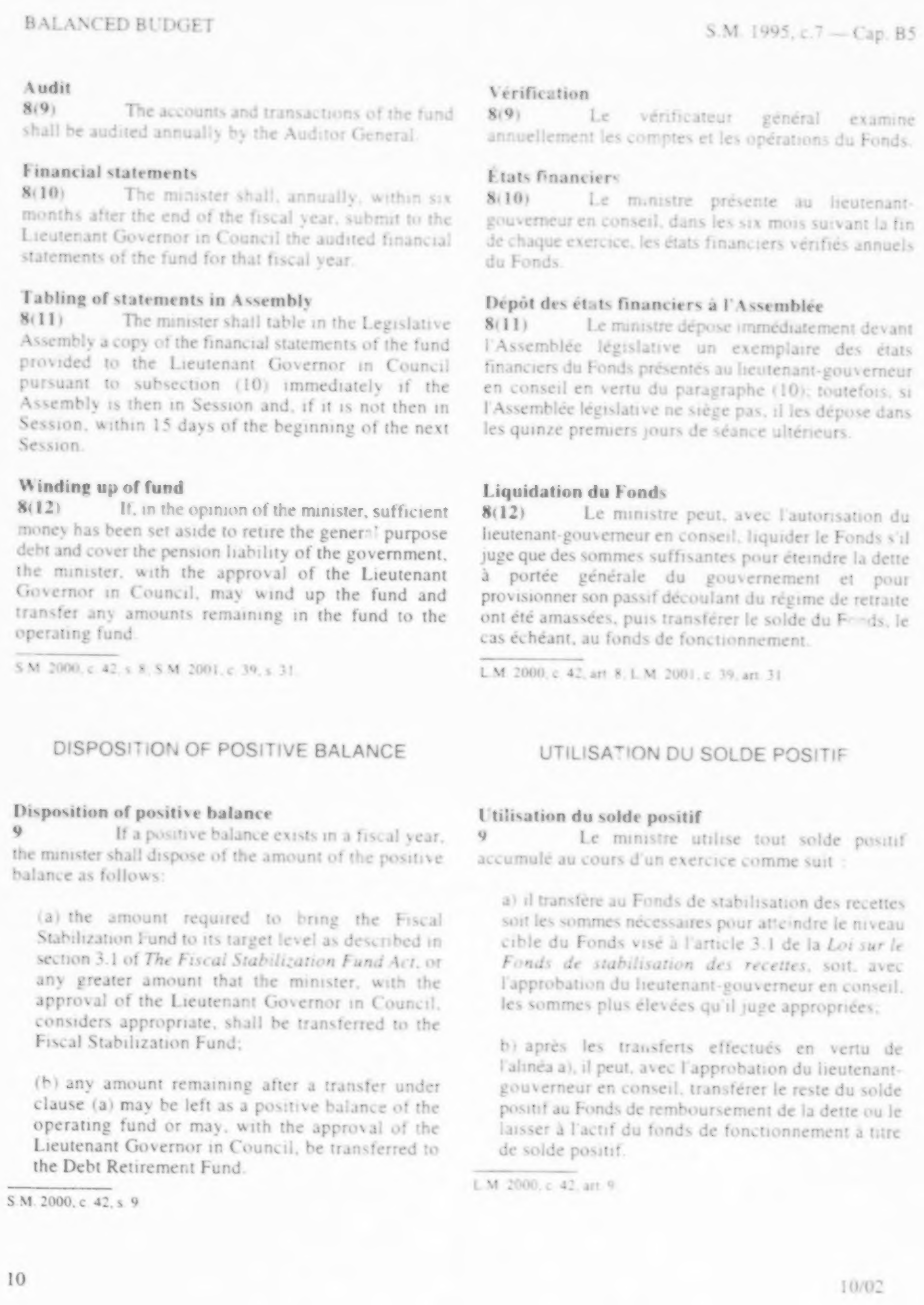
Exigences — cotisation des nouveaux employés
8(6.5) Le Comité de répartition s'assure que sont provisionnées les cotisations de contrepartie prévues pour les employés engagés à partir du 1er avril 2000.

Annulation
8(7) Malgré toute autre loi ou règle de droit, les sommes à l'actif du Fonds ne sont pas annulées à la fin de l'exercice.

Exercice
8(8) L'exercice du Fonds commence le 1er avril d'une année et se termine le 31 mars de l'année suivante.

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

Appendix F
(cont'd.)



BALANCED BUDGET

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Audit
8(9) The accounts and transactions of the fund shall be audited annually by the Auditor General.

Financial statements
8(10) The minister shall, annually, within six months after the end of the fiscal year, submit to the Lieutenant Governor in Council the audited financial statements of the fund for that fiscal year.

Tabling of statements in Assembly
8(11) The minister shall table in the Legislative Assembly a copy of the financial statements of the fund provided to the Lieutenant Governor in Council pursuant to subsection (10) immediately if the Assembly is then in Session and, if it is not then in Session, within 15 days of the beginning of the next Session.

Winding up of fund
8(12) If, in the opinion of the minister, sufficient money has been set aside to retire the general purpose debt and cover the pension liability of the government, the minister, with the approval of the Lieutenant Governor in Council, may wind up the fund and transfer any amounts remaining in the fund to the operating fund.

S.M. 2000, c. 42, s. 8; S.M. 2001, c. 39, s. 31.

Vérification
8(9) Le vérificateur général examine annuellement les comptes et les opérations du Fonds.

États financiers
8(10) Le ministre présente au lieutenant-gouverneur en conseil, dans les six mois suivant la fin de chaque exercice, les états financiers vérifiés annuels du Fonds.

Dépôt des états financiers à l'Assemblée
8(11) Le ministre dépose immédiatement devant l'Assemblée législative un exemplaire des états financiers du Fonds présentés au lieutenant-gouverneur en conseil en vertu du paragraphe (10); toutefois, si l'Assemblée législative ne siège pas, il les dépose dans les quinze premiers jours de séance ultérieurs.

Liquidation du Fonds
8(12) Le ministre peut, avec l'autorisation du lieutenant-gouverneur en conseil, liquider le Fonds s'il juge que des sommes suffisantes pour éteindre la dette à portée générale du gouvernement et pour provisionner son passif découlant du régime de retraite ont été amassées, puis transférer le solde du Fonds, le cas échéant, au fonds de fonctionnement.

L.M. 2000, c. 42, art. 8; L.M. 2001, c. 39, art. 31.

DISPOSITION OF POSITIVE BALANCE

Disposition of positive balance
9 If a positive balance exists in a fiscal year, the minister shall dispose of the amount of the positive balance as follows:

(a) the amount required to bring the Fiscal Stabilization Fund to its target level as described in section 3.1 of *The Fiscal Stabilization Fund Act*, or any greater amount that the minister, with the approval of the Lieutenant Governor in Council, considers appropriate, shall be transferred to the Fiscal Stabilization Fund;

(b) any amount remaining after a transfer under clause (a) may be left as a positive balance of the operating fund or may, with the approval of the Lieutenant Governor in Council, be transferred to the Debt Retirement Fund.

S.M. 2000, c. 42, s. 9

UTILISATION DU SOLDE POSITIF

Utilisation du solde positif
9 Le ministre utilise tout solde positif accumulé au cours d'un exercice comme suit :

a) il transfère au Fonds de stabilisation des recettes soit les sommes nécessaires pour atteindre le niveau cible du Fonds visé à l'article 3.1 de la *Loi sur le Fonds de stabilisation des recettes*, soit, avec l'approbation du lieutenant-gouverneur en conseil, les sommes plus élevées qu'il juge appropriées;

b) après les transferts effectués en vertu de l'alinéa a), il peut, avec l'approbation du lieutenant-gouverneur en conseil, transférer le reste du solde positif au Fonds de remboursement de la dette ou le laisser à l'actif du fonds de fonctionnement à titre de solde positif.

L.M. 2000, c. 42, art. 9

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Appendix F
(cont'd.)

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

TAX REFERENDUM REQUIREMENT

Referendum required for tax changes
10(1) Subject to subsection (2), the government shall not present to the Legislative Assembly a bill to increase the rate of any tax imposed by an Act or part of an Act listed below, unless the government first puts the question of the advisability of proceeding with such a bill to the voters of Manitoba in a referendum, and a majority of the persons who vote in the referendum authorize the government to proceed with the changes:

(a) *The Health and Post Secondary Education Tax Levy Act*;

(b) *The Income Tax Act*;

(c) *The Retail Sales Tax Act*;

(d) Part I of *The Revenue Act*.

Revenue neutral and external changes
10(2) Subsection (1) does not apply to

(a) a bill to increase the rate of a tax if, in the opinion of the minister, the increase results from changes in federal taxation laws and is necessary to maintain provincial revenue or to give effect to a restructuring of taxation authority between the federal government and provincial governments;

(b) a bill to increase the rate of a tax if, in the opinion of the minister, the proposed change is designed to restructure the tax burden and does not result in an increase in revenue.

Procedures for referendum
11(1) A referendum under subsection 10(1) shall be conducted and managed by the Chief Electoral Officer in the same manner, to the extent possible, as a general election under *The Elections Act*, and the provisions of *The Elections Act* apply with necessary modifications to a referendum.

Question to be put to voters
11(2) The question to be put to voters in a referendum under subsection 10(1) shall be determined by Order of the Lieutenant Governor in Council at the commencement of the referendum process.

EXIGENCES EN MATIÈRE DE RÉFÉRENDUM SUR LES TAXES

Référendum – modification des taxes
10(1) Sous réserve du paragraphe (2), le gouvernement peut déposer à l'Assemblée législative un projet de loi prévoyant l'augmentation du taux de taxation ou d'imposition prévu par la totalité ou une partie d'une des lois citées ci-dessous s'il demande au préalable, par voie de référendum, l'avis de l'électorat manitobain sur les modifications proposées et que celui-ci lui donne l'autorisation, par un vote majoritaire, de procéder à l'adoption des modifications

a) la *Loi sur l'impôt destiné aux services de santé et à l'enseignement postsecondaire*;

b) la *Loi de l'impôt sur le revenu*;

c) la *Loi de la taxe sur les ventes au détail*;

d) la partie 1 de la *Loi sur le revenu*.

Exception
10(2) Le paragraphe (1) ne s'applique pas :

a) aux projets de loi prévoyant l'augmentation du taux d'une taxe ou d'un impôt si le ministre juge que l'augmentation résulte de modifications apportées aux lois fiscales fédérales et est nécessaire au maintien des recettes provinciales ou au plein effet d'un transfert de pouvoirs en matière de fiscalité entre les gouvernements fédéral et provinciaux;

b) aux projets de loi prévoyant l'augmentation du taux d'une taxe ou d'un impôt si le ministre juge que les modifications ont pour but de redistribuer le fardeau fiscal sans entraîner une augmentation des recettes.

Processus référendaire
11(1) Le directeur général des élections tient et dirige tout référendum visé au paragraphe 10(1), dans la mesure du possible, de la même façon que sont tenues les élections générales en vertu de la *Loi électorale* dont les dispositions s'appliquent, avec les adaptations nécessaires, aux référendums.

Libellé de la question
11(2) Le lieutenant-gouverneur en conseil détermine, par décret, au début du processus de tout référendum devant être tenu en vertu du paragraphe 10(1), le libellé de la question devant en faire l'objet.

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

Regulations re procedures
11(3) The Lieutenant Governor in Council may make any regulations that the Lieutenant Governor in Council considers necessary respecting the referendum process to give effect to subsection 10(1), including, without limiting the generality of the foregoing,

(a) governing the preparation of a voters list;

(b) governing the expenses, if any, that may be incurred, and the contributions, if any, that may be made, and by whom, in connection with a referendum;

(c) where greater certainty is required, modifying to the extent necessary the provisions of *The Elections Act* to make them applicable to the requirements of a referendum.

Costs of referendum
11(4) The costs of conducting a referendum shall be paid from the Consolidated Fund.

AMENDMENT OR REPEAL

Amendment or repeal
12(1) Any bill introduced in the Legislative Assembly to amend, repeal, override or suspend the operation of this Act shall be referred at the committee stage to a standing committee of the Legislative Assembly which provides the opportunity for representations by members of the public.

Requirements re hearings
12(2) The standing committee reviewing a bill described in this section shall not be scheduled until seven days after the later of

(a) the day the bill is distributed in the Legislative Assembly; and

(b) the day the public is given notice of the date, time and place of the committee meeting.

Règlement – procédure
11(3) Le lieutenant-gouverneur en conseil peut, par règlement, prendre les mesures nécessaires pour donner plein effet au paragraphe 10(1), et notamment:

a) régir la préparation de la liste électorale pour la tenue d'un référendum;

b) régir le genre de dépenses et de contributions permises, le cas échéant, dans le cadre d'un référendum et régir qui peut les engager ou les faire;

c) effectuer les modifications nécessaires à la *Loi sur les élections* de façon à respecter les exigences d'un référendum.

Coûts d'un référendum
11(4) Les dépenses engagées pour la tenue d'un référendum sont payées sur le Trésor.

MODIFICATION OU ABROGATION

Modification ou abrogation
12(1) Les projets de loi déposés à l'Assemblée législative qui visent à modifier ou à abroger la présente loi, à déroger à son application ou à en suspendre l'application sont renvoyés, à l'étape de l'étude en comité, à un comité permanent de l'Assemblée afin de permettre au public de présenter ses observations.

Exigences
12(2) Les séances de tout comité permanent procédant à l'étude d'un projet de loi visé au présent article commencent au plus tôt sept jours après la plus éloignée des dates suivantes :

a) la date de distribution du projet de loi à l'Assemblée législative;

b) la date de communication d'un avis public indiquant l'heure, la date et l'endroit de l'étude du projet de loi.

Appendix F
(cont'd.)

BALANCED BUDGET, DEBT REPAYMENT AND TAXPAYER ACCOUNTABILITY ACT

13 **NOTE: This section contained consequential amendments to *The Fiscal Stabilization Fund Act* which are now included in that Act.**

C.C.S.M. reference
14 This Act may be cited as *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* and referred to as chapter B5 of the *Continuing Consolidation of the Statutes of Manitoba*.

S.M. 2000, c. 42, s. 11.

Coming into force
15 This Act comes into force on the day it receives royal assent.

13 **NOTE : Les modifications corrélatives que contenait l'article 13 ont été intégrées à la *Loi sur le Fonds de stabilisation des recettes* à laquelle elles s'appliquaient.**

Renvoi à la C.P.L.M.
14 La présente loi constitue la *Loi sur l'équilibre budgétaire, le remboursement de la dette et l'obligation de rendre compte aux contribuables*, chapitre B5 de la *Codification permanente des lois du Manitoba*.

L.M. 2000, c. 42, art. 11.

Entrée en vigueur
15 La présente loi entre en vigueur le jour de sa sanction.

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THE FISCAL STABILIZATION FUND ACT

Appendix G

CHAPTER F85

THE FISCAL STABILIZATION FUND ACT

(Assented to December 13, 1989)

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Manitoba, enacts as follows:

Interpretation

1 In this Act,

"balance" has the same meaning as in *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*; (« solde »)

"Crown corporation" means Manitoba Hydro, The Manitoba Public Insurance Corporation, The Liquor Control Commission and The Manitoba Lotteries Corporation; (« société de la Couronne »)

"fund" means the Fiscal Stabilization Fund established in section 2; (« Fonds »)

"minister" means the Minister of Finance; (« ministre »)

S.M. 2000, c. 42, s. 13

10/00

CHAPITRE F85

LOI SUR LE FONDS DE STABILISATION DES RECETTES

(Sanctionnée le 13 décembre 1989)

SA MAJESTÉ, sur l'avis et du consentement de l'Assemblée législative du Manitoba, édicte :

Définitions

1 Les définitions qui suivent s'appliquent à la présente loi.

« Fonds » Le Fonds de stabilisation des recettes constitué en vertu de l'article 2. ("fund")

« ministre » Le ministre des Finances. ("minister")

« société de la Couronne » L'Hydro-Manitoba, la Société d'assurance publique du Manitoba, la Société des alcools et la Corporation manitobaine des loteries. ("Crown corporation")

« solde » S'entend au sens qui est attribué à ce terme dans la *Loi sur l'équilibre budgétaire, le remboursement de la dette et l'obligation de rendre des comptes aux contribuables*. ("balance")

L.M. 2000, c. 42, art. 13

Appendix G
(cont'd.)

THE FISCAL STABILIZATION FUND ACT

Fund established
2(1) The Fiscal Stabilization Fund is hereby established under the direction and control of the minister.

Purpose of fund
2(2) The purpose of the fund is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning.

Management of fund
2(3) The minister shall hold the fund in trust and shall manage the fund in accordance with the provisions of *The Financial Administration Act.*

Transfers to fund
3(1) Subject to subsection (1.1) and despite *The Financial Administration Act*, the minister may, with the approval of the Lieutenant Governor in Council, transfer to the fund any part of a positive balance, in accordance with *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act.*

Proceeds of sale of Crown corporation
3(1.1) For greater certainty, the minister shall not deposit in the fund any revenue or other financial assets received by the government in a fiscal year ending after March 31, 2000 as a result of selling shares or assets of a Crown corporation in the course of a privatization of the Crown corporation.

Earnings of fund
3(2) The minister shall credit to the fund any earnings from investments of the fund.

S.M. 2000, c. 42, s. 13.

Target level
3.1(1) In this section, "**target level**" means an amount equal to 5% of the expenditure of the operating fund of the Consolidated Fund.

Achieving target level
3.1(2) The minister shall make every effort to ensure that the amount standing to the credit of the fund reaches at least the target level.

S.M. 1995, c. 7, s. 13.

Constitution du Fonds
2(1) Est constitué le Fonds de stabilisation des recettes. Le ministre en est responsable.

Objet
2(2) Le Fonds a pour objet de faciliter la stabilisation de la situation financière du gouvernement d'année en année et d'améliorer la planification financière à long terme.

Administration du Fonds
2(3) Le ministre détient le Fonds en fiducie et l'administre en conformité avec la *Loi sur l'administration financière.*

Transferts au Fonds
3(1) Sous réserve du paragraphe (1.1) et malgré la *Loi sur la gestion des finances publiques*, le ministre peut, avec l'approbation du lieutenant-gouverneur en conseil, transférer au Fonds toute partie d'un solde positif conformément à la *Loi sur l'équilibre budgétaire, le remboursement de la dette et l'obligation de rendre des comptes aux contribuables.*

Produit de la vente de sociétés de la Couronne
3(1.1) Il est entendu que le ministre s'interdit de déposer dans le Fonds les recettes et les autres actifs financiers que le gouvernement obtient, au cours d'un exercice se terminant après le 31 mars 2000, en contrepartie de la vente d'actions ou d'actifs de sociétés de la Couronne faisant l'objet d'une privatisation.

Revenus du Fonds
3(2) Le ministre porte au crédit du Fonds les revenus provenant des placements de celui-ci.

L.M. 2000, c. 42, art. 13.

Définition
3.1(1) Pour l'application du présent article, le « **niveau cible** » correspond à 5 % des dépenses du fonds de fonctionnement du Trésor.

Niveau cible
3.1(2) Le ministre déploie tous les efforts pour que les sommes à l'actif du Fonds atteignent au moins le niveau cible.

L.M. 1995, c. 7, art. 13.

THE FISCAL STABILIZATION FUND ACT

Appendix G
(cont'd.)

Transfers out of the fund
4(1) Subject to subsection (2), the minister may, for the purpose mentioned in subsection 2(2), and with the approval of the Lieutenant Governor in Council, transfer to the Consolidated Fund all or any part of amounts standing to the credit of the fund.

Restriction
4(2) A transfer under subsection (1) may be made only once in each fiscal year.

S.M. 1995, c. 7, s. 13; S.M. 2000, c. 42, s. 13.

No lapse
5 Notwithstanding any other Act or law, amounts standing to the credit of the fund do not lapse at the end of any fiscal year.

Fiscal year
6 The fiscal year of the fund shall be the period commencing on April 1 in one year and ending on March 31 in the next year.

Regulations
7 The Lieutenant Governor in Council may make any regulations that the Lieutenant Governor in Council considers necessary respecting the administration of the fund.

Audit
8 The accounts and transactions of the fund shall be audited annually by the Auditor General.

S.M. 2001, c. 39, s. 31.

Financial statements
9(1) The minister shall, annually, within six months of the end of the fiscal year, submit to the Lieutenant Governor in Council the audited financial statements of the fund for that fiscal year.

Tabling of statements in Assembly
9(2) The minister shall table in the Legislative Assembly a copy of the financial statements of the fund provided to the Lieutenant Governor in Council pursuant to subsection (1) forthwith if the Assembly is then in Session and, if it is not then in Session, within 15 days of the commencement of the next ensuing Session.

S.M. 1996, c. 59, s. 93.

Transferts
4(1) Sous réserve du paragraphe (2), le ministre peut, relativement à l'objet mentionné au paragraphe 2(2) et avec l'approbation du lieutenant-gouverneur en conseil, transférer au Trésor tout ou partie des montants compris dans le Fonds.

Restriction
4(2) Le transfert visé au paragraphe (1) ne peut être effectué qu'une fois.

L.M. 1995, c. 7, art. 13; L.M. 2000, c. 42, art. 13.

Annulation
5 Malgré toute autre loi ou règle de droit, les montants compris dans le Fonds ne sont pas annulés à la fin de l'exercice.

Exercice
6 L'exercice du Fonds commence le 1er avril et se termine le 31 mars de l'année suivante.

Règlements
7 Le lieutenant-gouverneur en conseil peut prendre les règlements qu'il estime nécessaires relativement à l'administration du Fonds.

Vérification
8 Le vérificateur général examine annuellement les comptes et les opérations du Fonds.

L.M. 2001, c. 39, art. 31.

États financiers
9(1) Le ministre présente annuellement au lieutenant-gouverneur en conseil, dans les six mois suivant la fin de l'exercice, les états financiers vérifiés du Fonds pour cet exercice.

Dépôt des états à l'Assemblée
9(2) Le ministre dépose immédiatement devant l'Assemblée législative un exemplaire des états financiers du Fonds présentés au lieutenant-gouverneur en conseil en vertu du paragraphe (1); toutefois, si l'Assemblée législative ne siège pas, il les dépose dans les 15 premiers jours de séance ultérieurs.

L.M. 1996, c. 59, art. 93.

Appendix G
(cont'd.)

THE FISCAL STABILIZATION FUND ACT

C.C.S.M.
10 This Act may be cited as chapter F85 of the *Continuing Consolidation of the Statutes of Manitoba*.

Coming into force
11 This Act is retroactive and is deemed to have come into force on March 31, 1989.

C.P.L.M.
10 La présente loi est le chapitre F85 de la *Codification permanente des lois du Manitoba*.

Entrée en vigueur
11 La présente loi a un effet rétroactif et est réputée être entrée en vigueur le 31 mars 1989.

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RECEIVABLES FOR SEVERANCE AND VACATION PAY DUE FROM THE PROVINCE

Appendix H

Province of Manitoba
Accrued Liability - Severance, Crown Organizations
March 31, 2006

Crown Agencies	
Addictions Foundation of Manitoba	$ 1,435,499
Assiniboine Community College	1,104,350
CancerCare Manitoba	1,646,660
Communities Economic Development Fund	65,400
Council on Post-Secondary Education	104,141
Horse Racing Commission	18,702
Legal Aid Manitoba	716,166
Manitoba Adolescent Treatment Centre Inc.	553,058
Manitoba Agricultural Services Corporation	428,901
Manitoba Centennial Centre Corporation	307,561
Manitoba Gaming Control Commission	146,079
Manitoba Housing and Renewal Corporation	1,446,105
Red River College	5,184,881
Rehabilitation Centre for Children, Inc.	259,607
Travel Manitoba	368,937
University College of the North	827,228
Sub-total	14,613,275
Regional Health Authorities	
Assiniboine Regional Health Authority Inc.	8,669,925
Brandon Regional Health Authority Inc.	8,636,465
Burntwood Regional Health Authority Inc.	1,758,851
Churchill Regional Health Authority Inc.	197,540
Interlake Regional Health Authority Inc.	5,277,128
NOR-MAN Regional Health Authority Inc.	2,654,372
North Eastman Health Association Inc.	1,859,090
Parkland Regional Health Authority Inc.	1,926,278
Regional Health Authority - Central Manitoba Inc.	9,115,360
South Eastman Health/Saute Sud-Est Inc.	1,898,575
Winnipeg Regional Health Authority Inc.	70,544,746
Sub-total	112,538,330
SOAs	
Civil Legal Services	248,300
Companies Office	170,800
Fleet Vehicles Agency	294,868
Food Development Centre	82,800
Industrial Technology Centre	142,200
Land Management Services	187,500
Manitoba Text Book Bureau	62,700
Manitoba Securities Commission	137,344
Manitoba Education, Research and Learning Information Networks (MERLIN)	26,400
Materials Distribution Agency	342,700
Office of the Fire Commissioner	281,700
Organization and Staff Development	33,100
Pineland Forest Nursery	142,300
Property Registry	1,041,400
Public Trustee	403,200
Vital Statistics Agency	126,300
Experience gain SOAs per Actuarial Valuation	(405,382)
Sub-total	3,318,230
Total March 31, 2006	$130,469,835

Appendix H
(cont'd.)

RECEIVABLES FOR SEVERANCE AND VACATION PAY DUE FROM THE PROVINCE

Province of Manitoba
Accrued Liability - Vacation Pay, Crown Organizations
March 31, 2006

Crown Agencies	
Addictions Foundation of Manitoba	$ 940,611
Assiniboine Community College	875,000
CancerCare Manitoba	1,715,083
Centre Culturel Franco-Manitobain	25,891
Child and Family Services of Central Manitoba	158,850
Child and Family Services of Western Manitoba	434,869
Council on Post-Secondary Education	26,963
Horse Racing Commission	10,149
Manitoba Adolescent Treatment Centre Inc.	706,940
Manitoba Agricultural Services Corporation	169,369
Manitoba Centennial Centre Corporation	199,964
Manitoba Housing and Renewal Corporation	410,280
Red River College	4,090,000
Rehabilitation Centre for Children, Inc.	138,650
University College of the North	742,665
Sub-total	10,645,284
Regional Health Authorities	
Assiniboine Regional Health Authority Inc.	6,484,052
Brandon Regional Health Authority Inc.	8,335,117
Burntwood Regional Health Authority Inc.	2,589,257
Churchill Regional Health Authority Inc.	348,158
Interlake Regional Health Authority Inc.	3,901,625
NOR-MAN Regional Health Authority Inc.	2,839,934
North Eastman Health Association Inc.	1,926,024
Parkland Regional Health Authority Inc.	7,582,679
Regional Health Authority - Central Manitoba Inc.	6,814,484
South Eastman Health/Saute Sud-Est Inc.	2,653,549
Winnipeg Regional Health Authority Inc.	82,708,311
Sub-total	126,183,190
SOAs	
Civil Legal Services	140,144
Companies Office	93,211
Land Management Services	132,925
Manitoba Text Book Bureau	32,726
Manitoba Securities Commission	116,332
Manitoba Education, Research and Learning Information Networks (MERLIN)	6,562
Materials Distribution Agency	46,870
Office of the Fire Commissioner	235,447
Pineland Forest Nursery	98,833
Property Registry	525,853
Public Trustee	224,974
Sub-total	1,653,877
Total March 31, 2006	$138,482,351

RECEIVABLES FOR PENSIONS DUE FROM THE PROVINCE

Appendix I

Province of Manitoba
Due From Province of Manitoba for Pensions
March 31, 2006

Crown Agencies	
Addictions Foundation of Manitoba	$16,332,241
Child and Family Services of Central Manitoba	13,895
Communities Economic Development Fund	1,620,890
Council on Post-Secondary Education	1,031,345
Horse Racing Commission	271,207
Legal Aid Manitoba	10,023,029
Manitoba Agricultural Services Corporation	5,932,258
Manitoba Centennial Centre Corporation	4,862,000
Manitoba Housing and Renewal Corporation	5,657,598
Total March 31, 2006	$45,744,463

Appendix J

GLOSSARY

Accumulated surplus/deficit	The total of all past annual surpluses and deficits to date.
Annual surplus/deficit	The difference between the government's annual revenues and expenses.
Derivative contract	A "swap" or other financial instrument that is entered into with a third party, and is used to hedge interest rate, foreign currency or other risk exposures.
Effective interest method	Method of calculating the amortized cost of a financial asset or liability and of allocating interest income or interest expense over the relevant period.
Effective interest rate	Rate which exactly discounts future cash payments or receipts over the expected life of the financial instrument.
Financial assets	Assets of government (such as cash, investments, loans and accounts receivable) that can be converted to cash in order to pay government's liabilities or finance its future operations.
General infrastructure assets	Also known as capital assets, physical assets, tangible assets, non-financial assets, physical capital stock. These general program capital assets form the infrastructure necessary to provide services to citizens.
Generally accepted accounting principles (GAAP)	This refers to the accounting policies that government should follow in order to be consistent in its accounting practices with other, similar, organizations. The accepted authority for GAAP for Canadian governments is the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).
General programs	Those activities of government which are not carried out by its profit-oriented enterprises.
Government Business Enterprises	Also known as commercial, self-supporting, or modified equity enterprises. These are self-sufficient Crown corporations that sell goods or services to parties outside the government reporting entity.
Government reporting entity	The group of organizations that are consolidated in the government's main summary financial statements.
Government transfers	Funds received by the Province from the Federal Government, such as the Equalization Transfers and the Canada Health and Social Transfers.

GLOSSARY

Appendix J
(cont'd.)

Gross domestic product (GDP)	The money value of goods and services produced within a geographical boundary. GDP can be reported without adjusting for inflation (known as market value, current, or nominal GDP) or it may be discounted for the effects of inflation (real GDP).
Health Care Facilities	These facilities are controlled by a Regional Health Authority. They include faith based hospitals as well as personal care homes.
Hedging	Reducing potential exposure to foreign currency, interest rate or other risks. Often achieved by entering into derivative contracts with a third party.
Net debt	Defined as government's total liabilities less its financial assets, this is the residual liability amount that will have to be paid by future taxpayers.
Public debt	Borrowings of the government. Debt generally consists of debentures, notes payable, capital leases and mortgages.
Public debt expense	Also known as the cost of borrowing, or debt servicing costs, this is the interest incurred by government on its borrowings.
Summary financial statements	The provincial consolidated financial statements through which government reports its financial position and operating results.

Excerpt: The Auditor General Act

Audit of government accounts

9(1) The Auditor General is the auditor of the accounts of the government, including those relating to the Consolidated Fund, and must make any examinations and inquiries that he or she considers necessary to enable the Auditor General to report as required by this Act.

Audit of other public money

9(2) The Auditor General is responsible for examining and auditing public money that is not part of the Consolidated Fund, unless an Act provides otherwise.

Audit of Public Accounts

9(3) The Auditor General is responsible for examining and auditing the financial statements included in the Public Accounts under The Financial Administration Act, and any other statements the Minister of Finance presents for audit.

Reliance on external auditor's report

13 In order to fulfil his or her responsibilities as the auditor of the government's accounts, the Auditor General may rely on the report of an external auditor of a government organization or of a subsidiary of a government organization.

Copies of this report may be obtained by contacting:

Office of the Auditor General

500–330 PORTAGE AVENUE

WINNIPEG, MANITOBA CANADA R3C 0C4

PHONE: 204 945 3790 FAX: 204 945 2169

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